





## NEWS: EUROPE

Not long ago, a Yes vote seemed assured; now it's far from certain, writes Ian Rodger

## Austrians in a fever over EU referendum



Ms Madeleine Petrovic

## Green puts case for staying on outside

Modelaine Petrovic, leader of the Green Club in Austria, is a law graduate and former official in the Austrian social affairs ministry. She was elected president of the Green Alternative in Vienna in 1987 and to the national parliament in 1990.

Q: Austrians vote in a referendum on June 12 on whether to join the European Union. Why do you oppose Austrian membership of the EU?

A: We are not fundamentally against it. We want to change the EU, especially the Maastricht treaty. There are differing views among Greens about how best to do this. Some think we should join and then try to change it from the inside. We have evidence that it is possible to change the EU from outside.

Accession by Austria would be a good thing only if the Austrian government were willing to push for change in the EU. The EU is like a big ship that has sailed into dangerous waters. It needs a mobile little tug boat to get it out. We would like Austria to play that role. But the present government will not push for change.

Q: What do you think needs to be changed?

A: EU environmental policy is not strong enough to stop the negative actions of member states.

Q: Hasn't the EU shown sensitivity to Austrian concerns by agreeing to help finance a rail tunnel through the Brenner pass?

A: You cannot solve the transit problem with tunnels and bridges. Up to now, all the technical improvements that have been made have not been enough to prevent the growth of traffic. We get the impression that the EU does not see the real issue. The people want traffic to decrease.

Q: The government says the EU has also offered Austrian farmers a reasonable transition arrangement.

A: EU agricultural policy is completely contrary to the notion of sustainable development. It is wrong to transfer the multinational industrial model to agriculture. We should produce locally as much as possible.

Q: Do you fear economic damage if Austria does not join?

A: The economic effect would be marginal. We are already in the European Economic Area.

Q: What do you think will be the result in the referendum?

A: People do not trust the government. They know it is impossible for the EU to have only good points. Austrians have a strong tendency to decide in the day or so before a vote. Of course, we are going to respect the result, but the government will not if it loses. It will stage a second referendum.

Q: What would be the impact in the EU of a rejection?

A: The EU is in a very fragile state. Its leaders do not see what young people expect the Union to do. If they took a single step in the right direction, then young people would be enthusiastic. Now, instead, we have disaffection and indifference.



## EUROPEAN ELECTIONS

June 9 and 12

In the European Union, tomatoes must be square, chocolates are made of blood and cucumbers are all radioactive. These are among the scare stories put about in Austria in the past couple of weeks as campaigning towards the country's referendum this Sunday on joining the EU has reached an extraordinarily fevered pitch.

According to the results of two polls published this week, sentiment has become finely balanced, with 31 per cent of those who have made up their minds in favour of joining and the same number opposed. An astonishing 38 per cent are still undecided.

If Austrians decide not to join the EU, Sweden and Norwegians, who vote in referendums in the autumn, might easily follow, leaving the Union's expansion strategy in tatters.

Anti-EU sentiment in Austria has recovered dramatically since early March when the successful conclusion of entry negotiations left the country in a pro-EU euphoric state.

Polls then indicated as much as a 25 point lead for the pro-EU campaign. That momentum was soon dissipated when Britain and Spain held up ratification of the treaty over the arcane issue of voting weights in the council of ministers. This was just another demonstration of the meaningless wrangles that paralyse the Union, anti-EU forces in Austria exulted.

But, until a few days ago, polls continued to show that a small, but comfortable, majority of Austrians would vote in favour of joining the Union.

The motley collection of extreme right-wingers, farmers and some leftish Greens who formed the opposition looked completely overwhelmed by the unified ranks of the country's political, business and union leaders.

And the fundamental economic and security arguments for joining the EU, while not inspiring, were difficult to refute. In post cold war Europe, it is no longer clear who, if anyone, would guarantee Austria's security unless it becomes part of the Union.

The country's economy is already closely integrated with those of neighbouring EU countries, especially Germany and Italy. While membership will not make a big difference in Austria's growth prospects, there is general agreement that inward investment would be weaker if Austria did not join.

"We believe that 90 per cent of Austria's workers will benefit from membership, and the rest will be protected by special measures," Mr Heinz Vogler, president of the federal chamber of labour, says.

But these arguments were forgotten when the scare stories started appearing. Apart from the silly ones mentioned above which appeared in tabloid newspapers, there have been more substantial ones carefully tailored to Austrian sensitivities.

One legal expert discovered that, once inside the EU, Austria could not prevent its neighbouring countries from draining the Austrian Alps for their water requirements. Mr Jörg Haider, charismatic leader of the extreme right-wing Austrian Freedom party, promptly put up posters warning that joining the Union meant the country would lose its water. Then a constitutional lawyer

in Salzburg said that membership of the EU, including Euronorm, would invalidate Austria's law outlawing the construction and operation of nuclear power plants, in spite of a comforting side letter in the entry treaty. From there, it was but a short step for EU opponents to claim that Brussels would force the country to build nuclear plants.

Last week, the Socialist-Conservative coalition government, which is leading the pro-EU campaign, took flight, realising that the scare campaign was having an impact. Now the government, too, has become somewhat extravagant in its claims.

Mr Ferdinand Lacina, finance minister, threatened last week that taxes would have to be raised if the country stayed outside. On Wednesday, Mr Otto Habsburg, a descendant of the former Austrian monarchy, was trotted out to

say that the old Austrian idea of bringing people together in peace could only be realised in the EU.

On Sunday, Mr Alois Mock, the foreign minister who is recovering from a back operation, rose from his hospital bed to plead emotionally with his countrymen in a television interview to vote in favour.

He warned that a No vote would greatly weaken Austria. "We wouldn't go hungry. Our country is strong. But we would suffer many disadvantages - above all the next generation."

Ordinary Austrians seem put off by the increasingly shrill tone of the campaign, as is shown by the large number of undecided voters even at this late stage. One Vienna banker said this week: "One day when I talk to people, I get the impression that it will go through. The next day, I get the opposite impression."

## EU agriculture

Production as % of GDP (1990)



Exports as % of total exports (1990)



Farm workers as % of total workforce (latest figure)



## EU farmers try to come to terms with the new political landscape

Mr Jean-Claude Debandre, a Normandy dairy farmer, will be voting in this week's European elections to stop a foreign invasion.

The borders are a sieve. Products like meat are coming into western Europe from Poland and the Czech Republic without health checks, says Mr Debandre, who is also president of the Normandy farmers' union. "Sanitary conditions are very different in eastern Europe and they're putting those in western Europe at risk. We want real frontiers, on price and safety grounds."

Low-cost east European producers are not the only targets at which he wants his MEP to take aim. Currency fluctuations following the breakdown of the European monetary system have created "distortions" in competition between member states, he says.

While British farmers enjoyed a 60 per cent rise in their incomes last year, prices for French wheat producers dropped by up to a quarter. That is why Mr Debandre favours a single currency, or at least tighter regulations. "Farmers are very concerned about this. We want our candidates to commit themselves to it."

Short-term inequities, perceived or real, are high on the agenda at farmers' meetings with prospective MEPs. In both Britain and Denmark, for example, producers claim bitterly that they alone stick by the rules, filling in mountains of forms to comply with increasingly complex farm policies agreed in Brussels, while competitors elsewhere in the EU cheat and get away with it.

But the elections also come at a time when the industry is deep in debate - and intensely worried - about the longer-term future of agricultural policy.

Mr Jens Jakob Jakobsen, a large dairy farmer with 112 cows in Gangsted, northern Denmark, is arranging a series of farm visits for his local Euro-candidate, Ms Karen Riis Jorgensen. Farmers on the surrounding hills are much more interested in the election than people unconnected with the land, he believes. "How can we say we don't care when so much of our future is set in Brussels?"

His neighbours will turn out in force to talk to Ms Jorgensen, but they do not expect the young lawyer to have all the answers. "Who can tell what will happen, even in the next six months? We're all a little uncertain about the outcome of common agricultural policy reforms and the Gatt," Mr Jakobsen explains.

The 1992 reforms of the CAP introduced

direct payments to farmers as compensation for cuts in price support. This made the size of the subsidies more transparent and highlighted the cost of the CAP, which this year amounts to Ecu36.5bn (£26bn), or half the total EU budget. Presure is on for further reductions in support when the reforms end in 1996, and farmers know it.

Many also believe the sharp decline in

The industry is deep in debate - and intensely worried - about the longer-term future of agricultural policy, write Alison Maitland and Deborah Hargreaves

the agricultural workforce - which has dropped by 25 per cent in the past decade - has lessened their lobbying power. Even in member states like Ireland, where nearly 14 per cent of the labour force is still farm-based, producers are aware they can no longer take taxpayers' money for granted.

There are strains within the industry. Professor Wyn Grant, a specialist in agricultural policy at Britain's Warwick University, says that about a third of EU farmers are efficient enough to feel they could compete if subsidies were reduced or eliminated. "The others recognise they would be forced out of business if subsidies did not continue," he says.

That split in their constituency helps explain why some farming organisations have produced European election manifestos demanding open-ended support from the taxpayer, while others accept the need for radical reform.

For Mr Sjoerd Miedema, who runs a computerised dairy operation with 80 cows in Friesland, the Netherlands' main dairy region, the question is: what kind of reform? Given the high costs he faces to comply with environmental regulations, he does not want subsidies to be limited to

keeping inefficient producers on marginal farmland. "You'll get all kinds of farmers doing it as a hobby," he says. "That's not producing real money for the rural economy."

Mr Liam Foley is also an efficient dairy producer, but he farms in County Cork and is a senior official in the Irish Farmers' Association. The priority in Ireland, he says, is to concentrate payments on preventing rural decline.

He will be voting with one eye on New Zealand, where agricultural subsidies were withdrawn virtually overnight in 1984. Fear that the Gatt deal liberalising world trade will eventually force the EU into open competition with highly efficient, low-cost food exporters is uppermost in many Irish farmers' minds.

"The large, efficient Irish producer could live with that, but the 35,000 dairy farms in Ireland would quite quickly be reduced to 10,000 in a totally free market," he says. "New Zealand dairy farms have an average herd of 160 cows. The average in Ireland is 25 to 30 cows. The social consequences are very, very serious for this country."

He is also worried about the impact on peripheral member states if east European countries join the EU. "The Germans are the main contributors to the EU budget and it will be more beneficial for them to contribute to the economies of the east," he says. "That will mean far less money from the EU coming into a country like Ireland through structural funds."

If subsidies are to continue as a way of propping up rural economies, then Mr Foley expects public pressure to ensure that environmental conditions are attached to them.

Mr Willy Goriach, the German agricultural spokesman for the Socialist group in the last European parliament, argues that support should be targeted at farmers who adopt less intensive, "greener" methods. Standing for re-election, Mr Goriach attacks the way the current CAP reforms oblige farmers to leave 15 per cent of their arable land idle as "set-aside" while allowing intensive crop-growing to continue on the remaining 85 per cent. "It's not just the farmers' task to produce food," he says. "People should recognise that farmers have to produce the landscape, they have to protect nature, they have to protect our drinking water. As long as prices for food products fall because of overproduction, we need payments for farmers so they can respond to society's demands for landscape and nature."

The idea of a multi-track, multi-speed Europe in which

## Europe looms small in UK voters' eyes

By Philip Stephens, Political Editor

To the extent one can gauge the prevailing mood of an electorate, British voters prefer the sceptical vision of Europe offered by Mr John Major's Conservative government. But they will vote overwhelmingly for the opposition Labour and Liberal Democrat parties.

Perhaps more so than in any other European Union nation, the domestic record of the government, rather than the future shape of Europe, will decide the outcome in tomorrow's European elections.

No-one in the British political establishment doubts that the governing Conservatives will suffer heavy losses. The question is whether it will be a defeat or a disaster.

Opinion pollsters' best guess is that by the time the votes are counted on Sunday evening the party's representation in the Strasbourg assembly will be cut from the present 32 to anything between six and 20. Of the total 84 seats in mainland Britain, Labour can expect to win upwards of 50 and the Liberal Democrats anything from three to a dozen.

The projections are precarious. The past few days have seen signs of a pick-up in support for the Conservatives. Britain's first post-the-post electoral system ensures the winners invariably secure a disproportionate number of seats.

But it also means that a small swing, as little as 2 or 3 per cent of the vote, will decide the outcome in many seats.

Whatever the precise figures, Mr Major can credibly argue that the defeat will be despite, rather than because of, the essentially hostile approach to further European integration which has been the hallmark of the Conservative campaign.

Britain has never been a nation of enthusiasts for Europe. But the legacy of a deep recession and the bitter arguments over the Maastricht treaty have reinforced instinctive hostility to the idea that the rest of Europe might know best.

Mr Major's campaign has played to that mood. His emphasis on the preservation of the national veto in key areas of policy-making and on his government's opt-outs from the social chapter and monetary union have struck a chord with a large slice of the electorate.

The idea of a multi-track, multi-speed Europe in which

Britain can proceed at its chosen pace has allowed the Conservatives to paper over the worst splits in his own party.

Eurosceptics have seized on it as evidence they are winning the argument - that Britain will opt out of further moves towards integration at the 1996 intergovernmental conference.

The prime minister's rhetoric has provided further succour. The Tory party's enthusiasts (and there are still many) take comfort from the fact that Mr Major has given no binding commitments about Britain's stance at that conference.

Mr Major's problem is that while the style of his campaign, with its exaggerated claims of a threat to British sovereignty, may solidify the core Conservative vote, most of the electorate will be more influenced by his dismal domestic record.

A painfully slow economic recovery, the largest tax increases in recent memory, and a divided government unable to set a coherent policy agenda, do not provide the ingredients for electoral success.

The voters are in the mood to punish Mr Major for his broken promises.

Despite the disruption caused by the death last month of its leader, Mr John Smith, the Labour party has focused its campaigning effort almost entirely on this domestic agenda, branding the prime minister a weak leader at the head of a directionless government.

On issues European Labour is now more "positive" than the Conservatives - committed to the social chapter and in favour of, if not enthusiastic about, a single currency.

However, it has been careful not to shout that fact from the rooftops.

The Liberal Democrats, long the most pro-European of Britain's mainstream parties, have adopted the same tack. Mr Paddy Ashdown, their leader, has toned down his commitment to a single currency and promised a referendum if the 1996 conference leads to a significant shift in sovereignty.

Instead, the Liberal Democrats have concentrated their fire on domestic issues.

Overall, the result has been a campaign that has denied the voters a rational debate on Britain's relations with its European partners.

Whoever wins, Europe will be the loser.

## Clinton backing for strong Europe

By David Buchanan in Paris

President Bill Clinton yesterday appealed to the western allies to stay the course they had set themselves in trying to bring peace to Bosnia, and promised US backing for a stronger Europe.

In his first speech to a European parliament, he told the French national assembly that "America will remain engaged in Europe and, despite troop reductions, will keep a strong force here."

Seeking to dispel traditional French suspicions of US motives, he said that "America wishes a strong Europe, and Europe should wish a strong America", and the entire transatlantic alliance benefited when "America and Europe stand together". French MPs gave him a standing ovation at the end of a speech that seemed likely to reinforce recent improvements in the long-troubled relationship between Paris and Washington.

On Bosnia, Mr Clinton counselled patience. While "we must understand that we do not have total control over events in every nation", it was "important to recognise what has been done there". The war had been contained to Bosnia and had not spread to the air, he said, and he paid tribute to France's leading role in the UN peacekeeping force that had enabled humanitarian aid to get through.

The US backed yesterday's UN proposal for a four-month ceasefire, and with Russia's recent "very positive" diplomatic help hoped for results.

As the first US president to address the French parliament since President Woodrow Wilson did so in 1919, Mr Clinton took a broad historical sweep to contrast how western democracies had initially failed to check fascism in the 1930s, but had held together in the face of Soviet communism. After the latter's collapse, "we have now arrived at this century's third point of decision".

"We must set our sights on a strategic star", he said, "at that star be the integration and strengthening of the broader Europe". He said he had strongly welcomed the Nato decision in January "to let Nato assets be used by the Western European Union" arm of the European Union, which France is keen to build up.

He also applauded the fact that some 19 countries had shown interest in forging "partnerships for peace" with Nato, though he said he recognised the desire for some central European countries to join Nato, a possibility about which France is not enthusiastic.

The spread of market economics was another essential means of integrating the wider Europe, Mr Clinton said. He appealed to western Europe to open its markets to goods from the east, because "if our new friends are not able to export their goods, they may instead export instability, even against their own will".

France has in fact modified its opposition to eastern European imports, partly in deference to its close ties with Germany, a relationship which Mr Clinton also described as the linchpin of western European unity.

More daring was Mr Clinton's praise of the Gatt agreements, before a parliament that less than 18 months ago unanimously denounced US agricultural demands in the Uruguay Round negotiations.

"France played an absolutely pivotal role in the negotiations, the president said. "I know it was difficult, I know it required statesmanship", he said, but it had now opened the door to economic growth and jobs. Mr Clinton reiterated that his goal was to get the Gatt agreements ratified by the US Congress this year.

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## Battle for Moscow moves from street to balance sheet

Moscow has become the site of a furious battle over privatisation in Russia.

Mr Anatoly Chubais, the privatisation minister, has called on the country's president and prime minister to "punish" the mayor of Moscow for "undermining the foundations of Russian statehood". He accuses Mayor Yuri Luzhkov, an old-style manager with a populist touch, of trying to replace the government's radical privatisation policies with his personal control over enterprises in the Russian capital.

In three weeks vouchers entitling every Russian citizen to a share of state property expire. Mr Chubais has launched his assault on Mr

## Leyla Boulton on the mayor's attempt to short-circuit privatisation

Luzhkov before the next stage of privatisation. From July 1, enterprises will be sold for money only and Mr Luzhkov wants to make sure that that money ends up in the city's coffers rather than those of the government.

Moscow is not only important as a showcase of the government's reform policies, but the capital is a leading industrial centre in its own right. Despite claims by Mr Luzhkov that Moscow was among the top privatising areas, figures from his own office show that it was 20th in a list of 89 regions, having privatised less

than half the companies it was supposed to have sold off under the government's programme.

Mr Luzhkov's "special" plan for privatisation in Moscow would enable the mayor's office - and that means the mayor because all important decisions in the city administration are taken by him - to dictate what happens to enterprises after they are privatised.

This includes instructions that new owners would be entitled only to profits over and above those made by a company before it was privatised

and that only the mayor's office would be able to decide whether enterprises could be bankrupted or liquidated.

Mr Luzhkov claims that enterprises auctioned off so far have been sold to speculators and that the government's ambitious sell-off of half of Russian industry has not yielded any benefits.

On April 1 Mr Luzhkov suspended the registration of joint-stock companies, a precondition for their privatisation according to the government's sell-off method. This has consisted of auctioning off enterprises for vouchers, as

quickly as possible, in order to get the state out of the economy while minimising opportunities for corrupt officials to decide who gets what.

At the end of last month, at Mr Chubais' request, Mr Victor Chernomyrdin, the prime minister, gave Mr Luzhkov a three-day deadline to resume the registration of joint-stock companies. But on Thursday last week, Mr Luzhkov suggested that the instructions were not to be taken seriously.

Last month, he suspended land sales in the capital, saying the government needed land to generate revenues for

the city budget.

The main reason Mr Luzhkov has been able to get away with so much is political. Having been loyal to President Boris Yeltsin in all his conflicts with the Russian parliament, the mayor of Moscow is seen as an essential ally for any Kremlin ruler should the country's power struggle ever return to the streets of the capital.

Nor has Mr Luzhkov hesitated to take his struggle to the streets and to factory, shop-floors. In a direct challenge to the government's policies, he gave Rbc30bn (\$12bn) to "save



## EUROPEAN NEWS DIGEST

## BA to oppose French limits

British Airways is planning to challenge the French government in the European Commission in Brussels as well as through the French courts if it goes ahead with proposals to limit the size of aircraft and flight frequencies on services from London to Orly airport in Paris. Although BA will start operating services from London Heathrow to Orly on Monday, Sir Colin Marshall, BA's chairman, yesterday said that the proposed restrictions at Orly were "illegal" and would be challenged by BA. France bowed to European Commission and UK government pressure last month to open Orly to UK airlines competition. But Mr Bernard Bosson, the French transport minister, said UK airlines would be restricted to four flights a day and that only larger aircraft with more than 200 seats could use Orly at peak morning and evening hours. He also said that BA and its French affiliate, TAT, would be regarded as one airline in terms of frequencies. Although BA intends to fly only four daily services to Orly this summer, it plans to operate extra flights this winter in defiance of the French proposal to limit frequencies from London.

Sir Colin also said BA would soon file an objection with the European Commission to French government plans to inject £750m (\$1.23bn) in additional state aid to Air France. *Paul Bate, London*

## Air Inter calls second strike

Unions at Air Inter, the main domestic carrier in the Air France group, yesterday called their second 24-hour strike in their pay and job security will not suffer as a result of austerity measures for Air France. But the strike, called also to press Air Inter's case for more autonomy within the Air France group, was less widespread than the first one, halting about 50 per cent of flights yesterday. Meanwhile, the French government has warned the European Commission that if Brussels steps it injecting FF720bn into Air France and thereby forces the airline into liquidation, the total cost to the French taxpayer would be even greater, amounting to FF100bn. This was revealed by the Commission in its formal announcement last Friday of an inquiry into the Air France deal, which Brussels said in view of the airline's debts and losses could not be equated with the "rational" decision of a private investor. *David Buchanan, Paris*

## Russian-Ukraine tensions ease

Tensions between Ukraine and its Russian dominated region of Crimea eased further yesterday when Kiev announced it would pursue a policy of flexible deadlines in response to Crimea's diplomatic concessions last weekend. Head of the Ukrainian negotiating team, Mr Volodymyr Bhtutkevich, said that any actions against Crimea's pro-Russian leadership will be postponed until June 15, a date which could further delay if negotiations continue to proceed productively. The initial breakthrough was achieved late Friday night when Crimean negotiators, many of whom have advocated independence from Ukraine and reunification with Russia in the past, surprisingly backed down and signed a pro-Ukrainian communiqué.

In the communiqué, Crimea recognizes "the territorial integrity of Ukraine, of which Crimea is a part" and "the supremacy of the Ukrainian Constitution over all Ukrainian territory". The two sides, meeting on the Crimean peninsula, also decided to form a permanent joint working group to resolve their respective differences. *Jim Barshaw, Kiev*

## Little progress at Bosnian talks

The leaders of Bosnia's warring sides yesterday congregated in Geneva for a second day of talks on a proposed ceasefire but did not meet face to face promising little hope of an agreement. After separate meetings with the rival leaders, Mr Yasushi Akashi, top UN official in former Yugoslavia, said the talks would be adjourned for a later date unless the main protagonists made a "real effort" towards an agreement. As both sides quarreled over how long the proposed truce should last, fighting was reported between Serb and government forces in northern Bosnia.

In Serbia, in a thinly-veiled attack on Bosnian Serb leaders, President Zoran Lilić of Yugoslavia, technically head of the Yugoslav federation but seen as a puppet of Serbian President Slobodan Milosevic, yesterday said his country will not be "dragged into war" and that "millions of Yugoslav citizens" in Serb-held areas in Bosnia "cannot be hostage to one leader". *Laura Silber, Belgrade*

## Germany considers tax cuts

The German government appears to be considering corporate tax cuts in response to pleas from industry. A working on local authority taxes group comprising federal and local government officials had identified levies on working capital and operating profits as special burdens on industry. Mr Franz Christoph Zeltner, state secretary in the finance ministry said yesterday. However, he rejected as "false" press reports that Bonn planned to increase value added tax to cover the loss of revenue. Mr Zeltner was responding to a story in Stern magazine, quoting from what it claims to be secret ministry minutes, that the government wanted to "clarify in principle the possibility of reforming corporate taxes." *Christopher Parkes, Frankfurt*

## Reassurance by Dutch chain

Albert Heijn, the biggest Dutch supermarket chain, said yesterday that it would continue to sell Omo Power, a new generation of washing powder manufactured by Unilever, after receiving assurances about the detergent from the Anglo-Dutch consumer products group. The powder, called Persil Power in Britain, is at the centre of a highly public dispute between Unilever and its US rival Procter & Gamble, which has charged that the detergent damages clothing. Albert Heijn said it would compensate any customers who were dissatisfied with the powder if they could prove the detergent was bought in one of its 612 supermarkets. *Ronald Van de Krol, Amsterdam*

## ECONOMIC WATCH

## Setback for Spanish economy

An unexpected growth in imports halted the improvement in the current account of Spain's balance of payments in April. The monthly shortfall was marginally higher than the previous April at Pt222m, despite a sharp rise in income from tourism and other services. But the accumulated deficit for the first four months was still 30 per cent lower than the same period last year at Pt373bn (£1.82bn), according to provisional Bank of Spain figures. This reflected a 39 per cent upsurge in exports and an increased surplus from services and transfers. Tourist receipts were 20 per cent up. Some analysts believe that despite the latest figures this year could still produce a current account surplus, the first since 1986, the year of Spain's accession to the EU. Spain's gold and foreign currency reserves meanwhile decreased by \$394m in May to \$44.3bn, showing a total decline of \$983m since the beginning of the year. *David White, Madrid*

Italy's retail sales index was up 3.4 per cent in February from a year earlier the state statistical institute, Istat, reported yesterday. In February, large retail chains registered a 3.8 per cent sales rise, while medium-sized retailers posted an increase of 1.9 per cent. *Associated Press, Rome*

New car sales in Spain rose by 31.6 per cent year-on-year in May to 37,712 vehicles, after a 7.2 per cent increase in April, according to provisional figures from the vehicle manufacturers association ANFAC.

Dutch consumer price inflation is expected to have remained stable at a year-on-year rate of 2.8 per cent in May, according to a poll of bank economists.

## Spain joins drive for EU 'great leap forward'

Quentin Peel reports from a German-Spanish summit designed to give impetus to European unification

## Friendship flourished because of González's loyalty, says Kohl

Spain will join France and Germany in a co-ordinated drive in the European Union over the next 18 months to ensure that the 1996 conference on institutional reform - the follow-up conference to Maastricht - takes further clear steps towards European integration.

Chancellor Helmut Kohl of Germany, and Prime Minister Felipe González of Spain, both passionate believers in the process of European unification, committed themselves at their summit in Schwerin, in east Germany, yesterday to close co-operation in the planning process for the next European "great leap forward".

Spain will also be involved with France and Germany in carrying through a clear programme of EU priorities during their three consecutive six-month presidencies, beginning with Germany on July 1. That will include European-wide policies to tackle unemployment, new measures to support the emerging democracies of central and eastern Europe, and a parallel programme of assistance to the countries of northern Africa.

In spite of differences of detail on questions such as the German initiative for deregulation in the EU, and the borrowing powers of the European Commission, the German

For Helmut Kohl and Felipe González, their meeting over the past two days in the faded splendour of Schwerin, the former capital of the grand dukes of Mecklenburg in east Germany, had clear symbolic significance, writes Quentin Peel from Schwerin. It was the first time the German chancellor had held top-level talks with a fellow government leader in east Germany. But it was more than that.

The extraordinarily good personal relationship between the two, the Spanish Socialist and the German Christian Democrat, has flourished precisely because Mr González was the only west European leader who unhesitatingly supported the German unification. For the German chancellor, where his colleagues stood on the question of unification has become a touchstone for personal relations.

It is increasingly clear that the failure

of Mr Rüd Lubbers, the former Netherlands premier, to back the unification process four years ago, is the most important single reason why Mr Kohl is not supporting him to become the next president of the European commission in Brussels.

Mr Kohl spent out his appreciation of Mr González' loyalty in glowing terms again yesterday. He pointed out how few those world leaders were, back in 1989 and 1990, who had been so positive.

In private, he names only four: Mr George Bush, the former US president; Mr Brian Mulroney, the former Canadian premier; Mr Mikhail Gorbachev, the former Soviet leader; and Mr González.

One significant exception is President François Mitterrand of France, who was clearly dubious about unification until late in the process. But the Franco-German relationship is too important to

allow that to cause more than a shadow between the two.

The outright opposition of Mrs Margaret Thatcher, who was publicly cool and privately vitriolic about unification, has caused far more lasting bitterness.

Mr Kohl mentioned Mrs Thatcher's opposition yesterday, to underline his appreciation of his Spanish colleague.

"Some women colleagues have written it in their memoirs," he said. "If you read what Mrs Thatcher says, you can see she thinks it was all a terrible mistake. So you can see how important it was that Felipe González supported the process."

"You belong to those who, in many critical talks, explained again and again that German unity was not a thing for the Germans alone, but was a good thing for the Europeans, and for the free world," he told the Spanish premier yesterday.

He said that the main themes of the forthcoming German presidency, which would now be developed in conjunction with France and Spain, would be the whole field of job creation and European competitiveness, extending the field of common foreign and security policies. They would also include developing common policies on immigration, law and order, fighting drug trafficking and organised crime, and "everything which belongs to the theme of preparing the 1996 conference to follow up the Maastricht treaty".

At their press conference, however, the two government leaders insisted that there would be no public talk on the jobs list - which includes the secretary-generalships of Nato and the OECD, the European council of ministers, and the head of the future World Trade Organisation - until a deal was done at the forthcoming EU summit in Corfu.

There is now speculation in Spanish circles that Mr González might switch his position in exchange for support for Mr Enrique Baron, the former

Sleeping in Business Class.  
A brief history.

1968



1978



1982



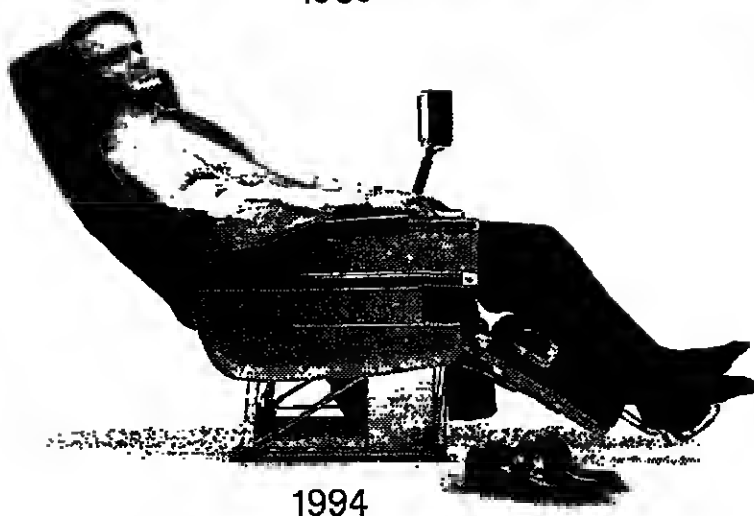
1985



1989



1990



1994

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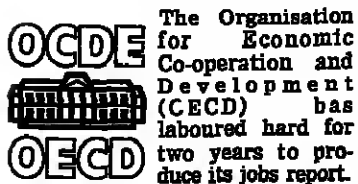
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## NEWS: OECD UNEMPLOYMENT REPORT

## Risk to democracy and world trading system



The Organisation for Economic Co-operation and Development (OECD) has laboured hard for two years to produce its jobs report. And the document that was presented to the press and public yesterday is just the tip of the iceberg of its efforts. Some 50 pages long, it makes a deliberate attempt to avoid economic jargon. Perhaps because of this, it goes some way to making clear just how dangerous and damaging the current high levels of joblessness are in the industrialised nations.

The organisation says that 35m unemployed in the 24 nations covered in the report represents an enormous waste of human resources, reflects an important amount of inefficiency in economic systems and causes a disturbing degree of social distress.

Underemployment in the form of involuntary part-time work, short time working and the discouragement of job seekers from looking for new employment could add 40 to 80 per cent to the jobless total.

"Today's unemployment is causing damage in ways that cannot be measured by the sheer numbers," the report says. "It brings with it unravelling of the social fabric, including a loss of authority of the democratic system and it risks resulting in the disintegration of the international trading system."

Although the report ducks the issue of a link between unemployment and crime, it notes that unem-

ployment is associated with health problems, lowers self esteem, is demotivating and creates insecurity and resistance to organisational and technical change.

The central problem, according to the OECD, is an insufficient capacity among the industrialised nations to adapt to change. This must be rectified if the OECD member countries are to overcome the jobless problem.

The study makes clear that Europe's weak employment growth but high productivity and the US experience of creating large numbers of low skilled, low productivity jobs over the past two decades are two sides of the same coin. Neither pattern of job creation is desirable. Only Japan has adjusted relatively well to such changes as globalisation and the spread of new technologies but it too is now having to deal with substantial problems.

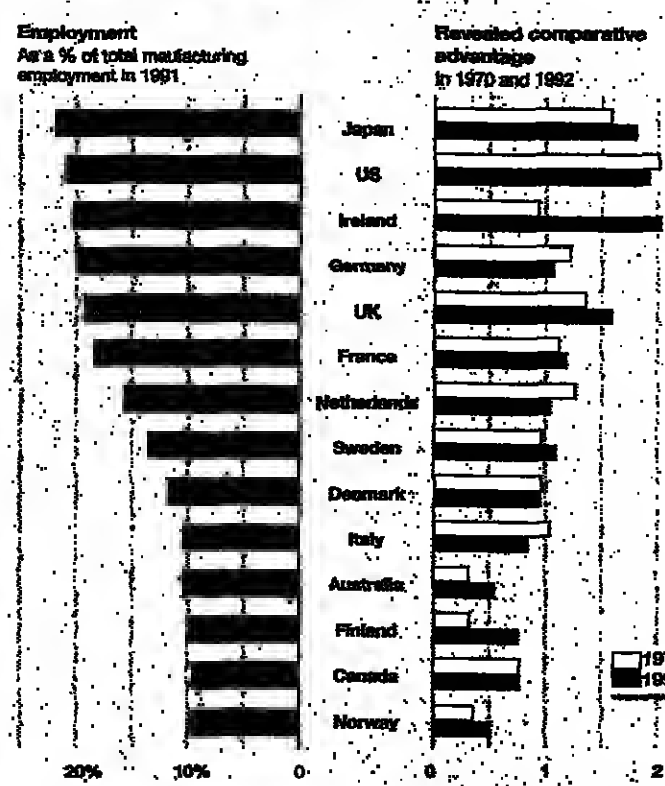
The OECD stresses that Europe faces a much more difficult task than the US or Japan.

Europe has to deal with rigid labour markets, a failure to encourage entrepreneurship and private sector jobs, and social security systems that in many cases hamper the creation of new jobs.

Most European countries also have a poor record in the high-tech industries.

Although Germany and Sweden, along with Japan, are considered leaders on the use of information technologies for advanced manufacturing, most European countries have failed to increase the share of production and exports taken by high tech products. On this score,

## High-technology manufacturing



Japan has been well ahead, creating a 4 per cent increase in manufacturing employment in the 1970s and 1980s. US manufacturing employment increased 15 per cent over the same period while in the European

Union countries it fell by a fifth. At first sight, the UK appears to have boosted its comparative advantage in high tech products but this reflected a fall in Britain's market share for low and medium

tech products in the 1980s and not growth in its sales of high tech products.

The importance of adapting to new technologies explains why there is great emphasis on improving skills and life-time learning in the OECD's long list of policy recommendations. In this way, people can adapt to six or more job changes in a working life.

The report sets out to slay some misconceptions and the idea that there are any quick fixes. There is no evidence that technological change is destroying jobs. The idea of "jobless growth", popular a couple of years ago, seems wrong. It also takes issue with the idea that imports from low wage countries in Asia are responsible for much of today's unemployment. "In practice most of the competition in OECD countries comes not from low-wage countries but from the OECD countries themselves."

The OECD's message is that change will have to be promoted throughout its member economies and societies to overcome unemployment. There can be no taboo areas: social security systems and labour markets and some cherished rights will have to come under review.

The report notes at one point that "Too many change is wrenching." But in his introduction, Mr Jean-Claude Paye, the OECD secretary general, observes that trying to slow the pace of change "would only make delayed adjustment more painful."

Peter Norman



Jean-Claude Paye: faster pace of change needed

## A 60 point strategy for putting people back to work

The OECD's jobs study has one unambiguous message: that high unemployment can only be tackled by restoring the capacity of economies and societies to adapt to change.

In trying to turn this goal into a practical strategy, the Paris-based organisation has produced around 60 specific recommendations. It has set out to design policies that encourage people to work and keep to a minimum the number of people who will have to rely wholly on the state.

Not all policy ideas apply in equal measure to all countries. Most are addressed to governments, but the OECD says that in many cases action to increase employment lies with employers, trade unions and individual workers.

The OECD recognises that most governments are strapped for cash. In calling for appropriate macro-economic policies, it urges them to cut

budget deficits and improve the quality of public spending.

To promote jobs growth, this means shifting resources from subsidising existing companies to encouraging new start-ups and moving from income support for unemployed to "active labour market measures" to get them back to work.

The specific recommendations on structural policy are given below in slightly condensed form and grouped under eight broad headings used by the OECD:

● To enhance the creation and diffusion of technological know-how. Invest in the creation of new knowledge through basic scientific research and help companies gain access to such knowledge.

Promote and strengthen mechanisms for international co-operation to gain economies of scale and avoid duplication of R&D.

Reduce uncertainties that

impair the creation and diffusion of new technologies. Measures could include promoting

multilateral agreements on intellectual property rights and standards, introducing transparent rules on government support for strategic technologies and ensuring a sound legal framework for spreading know-how.

Ease the absorption of new technologies in companies through, for example, making better use of public procurement and removing regulatory barriers to new information infrastructures.

● To increase working time flexibility. Remove obstacles in labour legislation that impede flexible working time arrangements.

Extend part-time work to the public sector. Move from the household to the individual as the base for income tax.

Reduce or remove "non-neutral" fiscal incentives to early

retirement of workers. Realign policies to give older workers more opportunities to stay in work.

● To nurture an entrepreneurial climate. Lower start up costs and simplify compliance rules to boost new company start-ups.

Help small businesses to grow by improving information and advice on such matters as business planning, equipment and access to training and R&D.

Identify and cut out unwarranted regulatory impediments to small businesses gaining access to credit.

● To increase wage and labour cost flexibility. Reassess the role of statutory minimum wages as a method of redistributing incomes. If countries decide to keep a legal minimum wage to combat poverty, they should index it to prices rather than average earnings and ensure sufficient differentiation of wage rates by

## OECD UNEMPLOYMENT PROJECTIONS\*

	1993	1994	1995
US	6.8	6.3	5.8
Japan	2.5	2.9	2.8
Germany	8.9	10.0	10.0
OECD Europe	10.7	11.7	11.8
Total OECD	8.2	8.5	8.3

\*% of labour force. Countries weighted at market prices. Source: OECD Outlook 93, to be published late June 1994

area and region to prevent minimum wages hitting youth employment or jobs in low productivity areas.

Reduce non-wage labour costs, especially in Europe, by cutting taxes on labour.

Reduce or remove provisions in the structure of tax and social security contributions that discourage hiring or part-time employment.

Reduce direct taxes on the low-paid where this would boost demand for workers, while protecting their incomes. Refocus, as a medium-term measure, collective bargaining to cover framework agreements that would leave employers free to respond flexibly to market trends.

Introduce "opening clauses" that would allow collective agreements covering many workers to be renegotiated at a lower level.

Increase competition in product markets through such means as deregulation and privatisation.

● To reform employment security provisions. Prevent dismissals on unfair grounds but allow firings if needed on economic grounds.

Loosen mandatory restrictions on dismissals in countries (such as Spain) where they hinder new hiring.

Allow fixed-term contracts but keep the mandatory protection for such contracts relatively tight.

● To expand and enhance active labour market policies. Improve public employment services by integrating placement and counselling, unemployment benefit payments and management of labour market programmes.

Ensure benefit claimants stay in regular contact with employment service and eliminate employment service monopolies.

Maintain training for the jobless in economic downturns, but target training programmes in line with labour market needs.

Allow the labour market authorities to buy and sell training places for the unemployed and involve employers in design and execution of training programmes.

Target job creation measures at groups where unemployment could do great harm, such as long-term unemployed

youths. Measures could include special employment subsidies for high unemployment groups. But pay on job-creation programmes should be low and training linked to temporary employment programmes in the public sector.

● To improve labour force skills. Improve initial education. Measures could include provision of pre-school training for those from disadvantaged backgrounds, measures to reduce early school-leaving, greater involvement of parents in schools and better incentives to motivate teachers.

Improve school-to-work transition. Measures could include greater partnership between industry and schools, new forms of apprenticeship, effective career guidance at school, a better balance between academic and technical and vocational studies and a "training wage" low enough to encourage companies to offer many training places.

Improve incentives for companies and workers to invest in continued learning. Measures could include training credits for adult workers or accountancy changes that would make the value of skills clear to companies and workers.

● To reform unemployment and related benefit systems. Restrict unemployment insurance benefit entitlements in countries where these last a long time, to the period of intense job search.

Reduce the amount of dole where it is high relative to a claimant's previous post-tax income.

Restrict benefits of indefinite duration for employable people. Limit support for collective short-time working to companies in temporary difficulty.

Adjust benefits to ensure low-paid workers are better off when in work, that spouses of the unemployed have an incentive to take part-time work, and that long-term unemployed only receive benefit if they take part in "active labour market programmes".

Improve information about claimants available to the employment services. Make employers pay some of the cost of lay offs.

Attack benefit fraud. Keep a local financing element in assistance benefits to discourage the view that benefits are costless to the local economy.

The OECD Jobs Study. Subscription details from OECD Publications, 2 rue Andre-Fasquelle, 15775 Paris Cedex 16.

Peter Norman

## Rejecting the unthinkable and the unacceptable

An earlier version of this year's OECD report linked long-term joblessness with the rise in crime and drugs abuse

The OECD jobs study is like a Rorschach ink blot, in which different people see different things, says Mr Robert Reich, the US labour secretary.

Mr Reich was responding to questions about whether the political tone of the document had changed since its earlier, January, draft. The US labour secretary believes it has not changed significantly but, from long experience of OECD reports, he knows that there is something in it for everyone.

The OECD has always been a strongly pro-market organisation but it is broad enough to reflect a spectrum from relatively interventionist social market ideas to pure free market ones.

This report has certainly been through various mutations. Last year, at the instigation of Mr Jean-Claude Paye, the OECD secretary-general, OECD economists were invited to "think the unthinkable" about whether unemployment could be reduced by fiscal expansion, protectionism or even reducing the pace of technological change.

Not surprisingly, such approaches were rejected. And the final drafts have emphasised the "middle-way" - combining labour market flexibility with efficient welfare to work measures and improved training - which forms the new consensus running through the Detroit Jobs Summit earlier this year, Mr Jacques Delors' European Union white paper of last December,

and even the recent Maastricht treaty by Mr Kenneth Clarke, UK Chancellor.

There have been a few minor changes in the past few months. The January draft explicitly linked long-term unemployment to rising levels of crime and drug abuse and also called for higher taxation on capital to offset reductions in non-wage labour costs. Neither point has found its way

into the final draft. On the other hand the scepticism towards levies on employers to generate a higher level of training has also disappeared and training levies are listed as one of the possible routes to a better trained workforce.

There is certainly plenty for the UK government, towards the free market end of the spectrum, to welcome in both the January draft and the final version.

The micro-economic stress on flexibility - with qualified hostility towards strong

employment protection legislation and minimum wages, and a relatively draconian approach to unemployment benefit - fits with the government's de-regulatory approach.

The UK's Family Credit benefit for the working poor is also explicitly praised and the passage on public employment services could have been written in the UK's department of employment.

last year compared with 1992. The OECD said the reform of agricultural policies in its member countries had been "limited and uneven".

Total farm support increased last year in the US, the European Union and Turkey and was little changed in Finland, New Zealand and Switzerland. Farm support, measured in national currencies, fell elsewhere in the OECD.

One other aspect of policy singled out by the OECD - low non-wage labour costs - is something which the Conservative government cannot claim credit for as Britain has always paid for welfare through general taxation rather than through pay-roll taxes.

And UK government economists did have some worries particularly on the vagueness about who pays for the ambitious training plans and about the idea that employers should pay something toward the cost of lay-offs.

Those closer to the social market end of the spectrum - including most trade union centres, left of centre political parties and the EU - welcome the stress on social consequences, lifetime training, and the critique of the social consequences of the US labour market model.

Mr John Morley, head of the employment task force at the European Union, said: "The OECD places a slightly different stress but the basic message is very similar to that of the Delors white paper. Both documents stress that there are disadvantages and advantages in all models, policy is about steering a path through these things."

But Mr Morley, in an implicit criticism of the UK government, adds: "The real challenge is to avoid the burden of job creation being borne only by those in the weakest position in society." He believes that the OECD report, with its stress on avoiding social exclusion, will help in that cause.

The study certainly stresses that labour market dynamism must be combined with social objectives but they must be designed in ways that do not have job-killing side effects.

The danger for the OECD in being all things to all men is that governments and lobby groups will simply pick out what they want in order to reinforce what they are already doing.

David Goodhart

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# Cheap flowers grow out of a long recession

On any typical Sunday, a strip along Route 246 just south of the Tama river is lined with cars hocking the traffic heading out of Tokyo to the countryside. The congestion is caused by shoppers who come to World Flower, a discount flower shop, in search of potted lilies, roses and orchids which are sold at 50-80 per cent discounts on retail prices seen in the countless, independent flower shops throughout the country.

Back north across the river, a men's apparel shop advertises T-shirts for ¥490 (€3.12), one-tenth the price at a posh Tokyo department store.

Gone are the days when high prices were assumed to equate with better quality and stores competed to flaunt extra-

## Japanese are increasingly price conscious, reports Michio Nakamoto

gance. Instead, value-for-money is what today's consumers look for: bargain-hunting has become acceptable. "Consumers have become very sensitive to prices, there is no doubt about that," says Mr Hideaki Yajima at Jusco, a leading supermarket operator.

The Japanese media is calling it a revolution in values, as consumers discover for the first time that the high prices

of goods, many of which have long been fixed across the nation, can actually fall as a result of market forces.

While the greater price-consciousness has its roots in the country's long recession, it has been sanctioned by recent government pronouncements on the need to bring down Japan's high consumer prices.

Earlier this week, Prime Minister Tsutomu Hata pointed to the huge differentials between prices in Japan and other industrialised countries, and called for government action to reduce the disparity by half, mainly by deregulating markets and improving access to imports.

His stance echoes Japanese government policy in the mid-1980s when foreign pressure on

Japan to reduce its current-account surplus by stimulating the domestic economy led to similar railing against Japan's high prices and calls for deregulation and market-opening steps. But this time, developments in the market place and social changes are making it likely the trend towards lower prices will run deeper and wider than before.

Apart from the large number of discounters sprouting throughout Japan, supermarkets are going all out to cut prices to remain competitive. They are developing their own brands and relying more on imports, often cheaper than domestic products.

The spread of low-priced imported goods has hit the prices of domestic goods. The

popularity of low-priced imported beer has been a factor behind a recent price-war involving domestic beer, formerly sold at the same price everywhere in the country.

Aggressive price-cutting by retailers has more than wiped out a recent rise in the beer tax and Jusco says beer sales went up 30-50 per cent last month as a result.

A survey by the Ministry of International Trade and Industry shows the prices of many goods are actually lower than conventional retail price figures would suggest, as a result of widespread price cuts and the growing availability of low-priced goods.

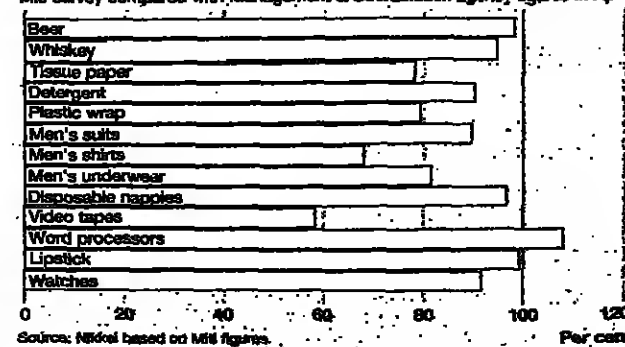
At the same time, consumer perceptions about what constitutes a reasonable price for

products have changed dramatically since the bubble years when people thought nothing of paying ¥1,000 for a 100-gramme steak or a bouquet of three roses. Spreading awareness among the Japanese public that cheaper imported goods are just as good as those made at home has helped change views of how much certain goods should cost.

With a record number of Japanese travelling abroad, there is also a wider familiarity with overseas prices and a greater reluctance to pay more for the same goods at home. Another development likely to ensure the trend for lower prices sticks is the change seen among Japanese manufacturers. Japanese brewers are tying up

## Japan: retail prices lower than suggested

Mit survey compared with Management & Coordination agency figures in April



with foreign partners in a bid to lower their costs. Hitachi, the electronics company, is considering launching a range of low-price consumer electronics with simpler functions, allowing the company to reduce costs.

Car makers such as Toyota are also launching value-for-money cars which have trimmed the fancy gadgets to reduce costs. "Lower prices are no longer just a passing trend," asserts Mr Yajima. "They are common sense."

## Bright spots seen in Japan

By William Dawkins in Tokyo

The Japanese government's Economic Planning Agency yesterday slightly upgraded its outlook, saying the economy remained stagnant overall but showed some emerging bright spots.

The agency's change in tone in its latest monthly report comes a day after the Organisation of Economic Co-operation and Development upgraded its forecast for the Japanese economy, from 0.5 per cent to a still weak 0.8 per cent growth in GDP this year. Last month the EPA said the economy was generally sluggish, in a record 37 months of decline.

The OECD and EPA's changes reflect the gradual impact of previous governments' four economic stimulation packages, worth ¥45,000bn (€28.5bn) over the past 18 months.

The EPA highlighted a smaller-than-expected fall in industrial production in May as a bright sign. "It is too early technically to declare the economy has reached bottom, but my impression is that it has," Mr Yoshio Terasawa, EPA director-general, said.

This latest EPA survey adds

weight to market expectations that the Bank of Japan's Tanaka quarterly study of business confidence, the country's most authoritative indicator of the short-term economic outlook due out on Friday, will show a broad improvement.

Over the past few months, the EPA has used more pessimistic language to describe the economic outlook than most private-sector forecasters, yet at the same time stuck to an official forecast of 2.4 per cent GDP growth this year, seen by most private-sector economists as unachievable.

But Mr Hirohisa Fujii, finance minister, yesterday said the government must seek to hit the official target by passing this year's budget and implementing steps to stimulate demand, such as the one-year income-tax cut agreed by the last government.

The budget for the year starting in April, delayed by Japan's internal political wrangling, is expected to clear parliament this month.

New stimulus packages or monetary measures will be unnecessary, so long as the budget is passed, Mr Masaru Hayami, head of the Japan Association of Corporate Executives, said.

## Dalai Lama urges west to back Tibet

The Dalai Lama, concerned about mounting pressure on him to abandon a policy of non-violence towards Beijing, appealed to the west yesterday to try to influence China about the future of Tibet, Reuters reports from Brussels.

Addressing Belgian MPs during a three-day visit to Belgium, the exiled Tibetan spiritual leader said he had failed so far to get anywhere with China.

"To Tibet some people think we should use more violent means. This (view) may even be growing, but I do not think this is the right approach," the 1989 Nobel Peace Prize winner said. "I want you to use all of your influence to make sure that the Chinese government accepts negotiations with the Tibetans," he said.

The Dalai Lama has sought talks with Beijing since 1979 when paramount Chinese leader Deng Xiaoping said that "except for the independence of Tibet, all other questions can be negotiated". He has proposed that Tibet be given internal autonomy with China looking after foreign policy and defence.

The Dalai Lama told the MPs he would like to hold a referendum to find out if non-violence still had support among his followers.

The Dalai Lama said he was not interested in entering politics in Tibet, pointing out that many Tibetans would have problems accepting a religious leader as a politician.

## Pakistanis warned of sacrifices

Farhan Bokhari reports on the background to tomorrow's budget

Government leaders including the prime minister, Ms Benazir Bhutto, have warned Pakistanis to be prepared to make sacrifices, for the sake of long-term growth, when the annual budget is unveiled tomorrow.

The budget, for the fiscal year beginning on July 1, follows economic growth of about 4 per cent, up from 3 per cent the previous year but below the target of 7.4 per cent. Official estimates show the inflation rate at 10.5 per cent, again an improvement on the 11 per cent of the previous year but above the government's target of 8 per cent.

Exports and imports have both fallen and the agriculture sector, which makes the largest contribution to the economy has grown by only 2.6 per cent, largely because of the destruction of more than a third of this year's cotton crop by a virus.

However, there are some brighter spots. The government claims that this would be the first year in almost a decade that the budget deficit would remain within its target, in this case 5.4 per cent of gross domestic product, following several years of rampant fiscal indiscipline. This compares with nearly 8 per cent in the previous year.

Foreign exchange reserves have risen to almost \$2bn from last summer's low of below \$300m. Independent economists say improvements in the budget deficit and the reserves are important positive factors for international financial



Bhutto: added pressure to weigh defence needs

institutions. Earlier this year, Islamabad signed loans worth \$1.36bn with the International Monetary Fund and agreed to accept conditions including lower bank borrowings by the government, improvement in reserves and a lower deficit.

"Our key priority is to attain macro-economic stability. We consider it a prerequisite for future growth," says Mr V.A. Jafary, the prime minister's adviser on finance, who is *de facto* finance minister. "We consider that previous attempts at accelerating growth failed because macroeconomic stability was not ensured."

Among planned measures are a widening of the scope of the existing general sales tax in order to boost revenues. The government's intention to lower tariffs over the next three years is forcing the country to wean itself from reliance on duties on exports and imports. "We have to find ways to tax consumers and also encourage industrial growth as well as trade," says a senior official.

Some businesses have already begun opposing the move, arguing that with a large black economy and smuggling flourishing, only legitimate businesses would be hit hard by the

sales tax which would mean higher prices at retail outlets.

Last year, a parliamentary committee found that up to Rs100bn (€3.24bn) worth of smuggling takes place each year. In addition, some businesses argue that with large scale corruption in the tax department, the new tax would provide further opportunities for bribery.

Mr Tahir Khalig, a businessman and former president of the Karachi Chamber of Commerce and Industry, claims that items which are taxed end up being sold at a price of up to 50 to 60 per cent higher than smuggled goods. "If the tax collector is not honest, people take advantage of that and misuse the system," he says.

Mr Haroon Rashid, president of the KCCI, wants the "unorganised sector" - a reference to the black and informal economy, to be taxed like other businesses so that the sales tax would be considered to be fair.

Other issues related to the country's macroeconomic structure are also being debated. Almost two-thirds of the budget goes towards debt servicing and funding the defence forces. The recent decision by India, Pakistan's arch enemy, to raise its defence budget by up to 20 per cent has put added pressure on the government of Ms Bhutto to look closely at the country's defence needs. However Ms Bhutto said this week that Pakistan would not try to match the Indian defence budget increase.

Boom time for smugglers, Page 7

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## NEWS: INTERNATIONAL

# Middle East and Gulf growth rates halve

By Mark Nicholson in Amman

The overall growth rate for the economies of the Gulf and other leading Middle Eastern states more than halved in 1993 from its level the preceding year, slumping to an aggregate 3.5 per cent from 6.8 per cent, according to a newly-published report by the Economic and Social Commission for Western Asia, the Amman-based United Nations agency.

The ESCWA study, which covers the seven Arabian Peninsula states and Egypt, Iraq, Jordan, Lebanon, and Syria, lists low oil prices, poor export performances, continued sanctions on Iraq's economy, political uncertainties in Egypt and Yemen and "the generally depressed state of regional co-operation" as the chief factors in the decline.

Only two states, Yemen and Qatar, recorded negative growth rates in 1993, the report says, but weak oil prices helped cut aggregate GDP growth for the Gulf Co-operation Countries (Saudi Arabia, Kuwait, Oman, Bahrain, Qatar and the United Arab Emirates) to a rate of 3.3 per cent from 7.5 per cent in 1992.

More positively, the report notes that economic reforms "gained momentum", particularly in Jordan, which recorded 6 per cent growth in 1993 and where both inflation and unemployment were substantially reduced, and Egypt, which the report says showed growth the same year of 1.8 per cent. But it says delays in Egypt's implementation of reforms and disagreements with the IMF and World Bank have had a "negative impact on economic growth and the state of investors' confidence".

The report also notes the positive effects of Lebanon's stabilisation policy - which it calls "implicitly in line" with IMF recommendations - and Syrian policies which, it says, are "aimed at gradually opening up and deregulating the economy". Both Lebanon and Syria showed improved growth in 1993 over 1992, the study says, with rates rising to 7 from 5 per cent and to 6 from 5 per cent respectively.

However, it says that generally positive growth rates have failed to arrest increasing discrepancies within the countries it covers: "The majority of the poor and rural population

continues to be deprived and marginalised in most countries of the ESCWA region."

It notes, in particular, that despite Jordan's relatively high growth rates in 1992 and 1993, the number of families falling below the poverty line has nevertheless risen to 21.3 per cent of households in 1993 from 18.7 per cent in 1992.

The report estimates the total external debt of the ESCWA region to have grown to \$186bn (\$124bn) from \$180bn over the period, representing 62 per cent of aggregate GDP in 1993. And while it says Egypt and Jordan, in particular, have recently improved the terms of their debt repayment, the report notes the region's external debt constituted 11.5 per cent of total developing country debt, while exports of goods and services from the region comprised just 5.6 per cent and 6.2 per cent respectively of the aggregates for developing countries overall.

The ESCWA study also indicates the continued inertia in the development of inter-regional trade, flows of which it says fell slightly in 1993 to just 10 per cent of the total for the countries covered.

## Jordan shuffles cabinet as peace talk hopes grow

By James Whittington in Amman

Jordan yesterday announced a cabinet reshuffle in expectation of a fresh phase of peace negotiations with Israel. Prime Minister Abdel Salam al-Majali is expected to keep his post but officials say new faces will be brought into other key positions to "reinvigorate" the government and its efforts in the peace process.

The change came amid optimism from the Jordanians that a breakthrough in its peace talks with Israel was imminent. On Monday, Jordan and Israel restarted direct talks in Washington on their peace

agenda signed in September last year.

Officials in Amman said they expected the two sides to agree to set up a joint committee to examine the countries' land dispute. The border between Jordan and Israel has never been formally recognised, both sides are said to see the need to settle territorial issues before moving to others such as water, economic co-operation and refugees.

It was not clear last night who would appear in the new cabinet. The lower house of parliament has been calling for representation of MPs at cabinet level, as in previous governments, but a former minister said this "was doubtful".

The last cabinet reshuffle came after the kingdom held its first multi-party elections last November. Since then, the government and parliament have had frequent stand-offs. The cabinet has come in for criticism over its handling of talks with the Palestinian Liberation Organisation on future economic ties between Jordan and the West Bank.

One former prime minister, Mr Ahmad Obeidat, said the old cabinet lacked clear policies; he blamed its members for the uncertainty in the kingdom. The new cabinet, it is hoped, will be able to restore confidence in the peace talks.

By Eric Watkins in Aden

Two north Yemeni warplanes hit the Aden oil refinery with cluster bombs, sending a massive column of black smoke and flickering orange flames hundreds of feet into the air.

The attack, on Sunday, was the third in a week and brought home forcefully the war that has raged out of view for more than a month. But Adenis, like many other people under fire, are not covering. They are angered by the attacks on their homes and most remain determined to resist what they perceive as aggression from the north.

Aden is a sprawling town, its population of half a million clustered in and around the barren rocks of ancient volcanoes. The heart of the place is Crater, a veritable melting pot of races and nationalities that team through its sweltering streets.

Up Bazaar Street merchants are selling everything from boxes of Ribena to bottles of exclusive French perfume. On the pavement, intent young men work with small screwdrivers and tweezers,

Southern Yemeni warplanes bombed northern forces yesterday morning, hours after a ceasefire by the north took effect, a top northern official said, AP reports from Sanaa. Flaming Minister Abdul Karim al-Bayani declined to say whether the bombardment meant the north would now consider the ceasefire invalidated.

repairing watches while you wait. There is no sign of anxiety as people saunter to and fro in search of bargains.

In Maala, another district of the town, people have been without water for five days. No one knows quite why, nor do they stop to wonder about it much. Children in their hundreds are on the streets with bright yellow plastic bottles and make-shift wheelbarrows, dispatched to water wells dug in the streets. Two boys race, laughing as their empty yellow bottles tumble on to the road.

"Yes, we are having problems. The military has commandeered our buses and that makes getting to work difficult," says one office manager in the Tuwahi district.

"But we come as we can and do what we can. We are not afraid. We are sure that our defences will hold. We are very proud of what they have done so far," he says.

It is more than a month since north Yemeni military forces began their drive on Aden and other parts of the south. General Ali Abdullah Saleh, the northern leader, has since frequently boasted of arriving in the city to chew qat, the privat-like leaves everyone in the land munches to keep awake in the afternoon.

"General Saleh has made many appointments, but he's so far failed to arrive," notes a secretary.

About 20 miles north of the city, a dozen southern troops settle down for lunch. It is rice and grilled chicken, spread in huge platters on the concrete floor. They lean their AK-47s against the walls and begin to take their food by the handful. Northern artillery shells rip through the air, crashing nearby. The soldiers continue their meal, barely looking up as the walls shake around them.

Last week one of the most ferocious battles of the war was fought here, the

burned out remains of a southern army camp only the most visible sign of the struggle.

But there are more ghastly reminders. Southern troops point to the corpse of a northern soldier, his face respectfully covered in a chequered headcloth. Other corpses of northern soldiers are buried en masse in makeshift graves alongside the road. The stench of death rises from the road where southern troops stand ready for a new northern offensive.

"Our defences will hold," says a spindly old man in Crater. Perhaps they will. Northern troops massed to the east have been held off for nearly six weeks, as have other soldiers driving in from the north and west.

Smoke still rises above the refinery, a reminder of the north's destructive power. But southern pilots, defying incoming northern shells, continue their sorties, talking off with clockwork precision every 10 minutes throughout the morning.

Meanwhile, traffic in the city carries on in an orderly manner, directed by policemen wearing pale green uniforms and sparkling white hats.

## 'Truth commission' to be set up S African rights probe planned

By Patti Waldmeir in Johannesburg

The South African government is to set up a "truth commission" to probe human rights abuses under apartheid, but those who prove their crimes were politically motivated might be pardoned, Justice Minister Dullah Omar said yesterday.

Mr Omar said the commission of eminent and respected South Africans would examine abuses by the previous white-dominated government as well as by his own African National Congress (ANC), now the leading party in the coalition government of national unity.

"The fundamental issue for all South Africans is to come to terms with our past on the only moral basis possible, namely that the truth be told and that the truth be acknowledged," he told a Cape Town press conference. "We cannot forgive on behalf of victims.

The identity of the victims and what happened to them and the identity of perpetrators must be made known."

However Mr Omar left many important questions unanswered, including whether the commission would hold public hearings, whether its findings would be published and whether those who committed abuses would have their identity concealed in the interests of national reconciliation. No decision had yet been taken on these issues, he said, and no definition of a political crime had been agreed, though he said persons who committed "heinous crimes" might not be considered for pardon.

This was understood to be a reference to the convicted murderers of former ANC leader Chris Hani, assassinated last year in the country's most notorious political killing. Mr Omar said some 13,000 people had already been pardoned for offences ranging from member-



Omar: questions unanswered

## Kashmir gunmen kidnap Britons

By Alexander Nicoll, Asia Editor

Two Britons, including the 16-year-old son of a former Financial Times correspondent, have been kidnapped in Indian-held Kashmir by Moslem militants demanding the release of three jailed guerrillas.

The gunmen set upon Mr David Housego, former New Delhi correspondent of the FT and now a Delhi-based businessman, his wife Jenny and younger son Kim as they were trekking on Monday with Mr David Mackie, a British video director.

Mr Housego and Mr Mackie, who is 36, were abducted. Mr and Mrs Housego yesterday returned to Srinagar, summer capital of the Indian state of Jammu and Kashmir, and contacted the authorities.

The Indian army was alerted and photographs of the captives distributed. However, there was no indication of any contact between the Indian authorities and the militants.

Mr Housego said the captives appeared to be mostly Pathans who spoke both Pashto and Urdu, suggesting that at least some of them were from Pakistan. He was given a note in Urdu demanding the release of three men who are known to be members of the Harkatul Ansar militant group, including its leader, Mr Mohammed Sajjad. All are in Indian custody.

Some Pathans, who live in north-western Pakistan and Afghanistan, have joined Kashmiri Moslems in their rebellion against Indian rule in Kashmir, where most of the population are Moslems. Thousands of people, including many civilians, have died in fighting over the past four years.

The Foreign Office, which was last night monitoring the situation, said the British High Commission in Delhi was planning to send an official to Srinagar.

Mr Housego left the FT in 1992 to establish a Delhi-based textile manufacturing and export business.

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On Friday, June 17 the FT, in conjunction with Opel, will publish a 24 page, colour guide to the 1994 World Cup.  
It looks at how the tournament is organised and names the key players, both on the pitch (Baggio, Asprilla, Milla) and off it (Coca-Cola, Adidas and FIFA).  
The guide also examines the changing nature of the game, the new rules and football's emerging nations.

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- 1 June 13 - 15 ADVANCED PORTFOLIO MANAGEMENT AND HEDGING
- 2 June 13 - 17 MODERN SECURITY ANALYSIS FOR PRACTITIONERS
- 3 June 20 - 24 FRONTIERS OF MANAGERIAL FINANCE
- 4 June 28 - July 1 NEURAL NETWORKS IN CAPITAL MARKETS
- 5 August 22 - 26 FORECASTING TECHNIQUES IN FINANCIAL MARKETS
- 6 August 29 - September 2 EXCHANGE-RATE AND INTEREST-RATE ECONOMICS
- 7 September 5 - 9 BOND PORTFOLIO AND INTEREST-RATE RISK MANAGEMENT
- 8 September 12 - 13 PRACTICAL YIELD CURVE BUILDING
- 9 September 14 - 16 SWAPS: VALUATION, HEDGING AND TRADING STRATEGIES
- 10 September 19 - 23 OPTIONS: VALUATION, HEDGING AND PORTFOLIO APPLICATIONS
- 11 September 26 - 30 TREASURY RISK MANAGEMENT
- 12 October 25 - 28 ADVANCED MATHEMATICS OF DERIVATIVE PRODUCTS
- 13 October 31 - November 1 NUMERICAL METHODS IN ASSET PRICING
- 14 November 2 - 4 ADVANCED ANALYSIS OF INTEREST-RATE OPTIONS
- 15 November 21 - 25 EQUITY PORTFOLIO MANAGEMENT
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UK seek reverse import

EU trade for South



## UK seeks to reverse toy import curbs

By Guy de Jonquieres,  
Business Editor

The UK Department of Trade and Industry has taken the EU Council of Ministers to the European Court of Justice in an attempt to annul the Council's decision earlier this year to place stringent quotas on imports of teddy bears and other toys from China.

The DTI's legal action follows complaints by European toy importers that quotas are severely damaging business. Though Britain opposed the decision to impose the curbs, it was outvoted by 11 to 1.

The European Commission, which drew up the original quota proposals, said it was "surprised" by the legal action, because ways were already being sought in Brussels to soften the impact of the curbs on the European toy industry.

EU member governments regularly challenge Council decisions in the court after they have been overruled. But legal experts said the DTI action was most unusual because it did not allege that the Council had misused its

trade powers.

Instead, the DTI argues that the Council "failed to exercise discretion properly" by ignoring objections from European toy manufacturers. It also says an EU-wide quota was unnecessary, because only Spain had demanded protection against toy imports from China.

Toy Manufacturers of Europe, the main industry association, said the quotas would cut EU toy imports from China this year by about Ecu 1.8bn at manufacturers' selling prices to half the level forecast before they were imposed in February.

It said that at least 500 jobs would be lost in Europe and that toy manufacturers, many of whom sourced products and components in China, would suffer falls in sales and profits.

The association said that though it had lobbied all 12 governments before the decision was taken in February, the Council had acted without taking account of the damage the import curbs would cause. The curbs mainly affect stuffed animals, non-human figures and die-cast vehicles.

## Boom time for smugglers' paradise

Farhan Bokhari on the contraband business on Pakistan's border with Afghanistan

Mr Mohammad Shafi leans across his shop counter and points towards a small 'Peacock' brand Chinese television lying in a corner.

"You won't ever get it as cheap as here," claims the sturdy, tall tribesman, whose shop is lined with a large variety of electronic goods such as air conditioners, refrigerators, stereo equipment and fancy electronic telephones.

Mr Haji Mohammad, another shopkeeper nearby shouts at two of his assistants, who are off-loading a fresh consignment of electrical goods which arrived in a truck before sunrise, using a mountainous track to conveniently evade police check-posts along the road leading to the border. Mr Mohammad wants the consignment of refrigerators to be placed neatly outside his shop before customers arrive.

Both shopkeepers are among hundreds of businesses at Hayatabad market outside Peshawar, Pakistan's northern frontier town, whose fortunes have risen as smuggling has flourished in this country in the past 12 to 15 years.

The market has much more to offer for all clients such as expensive crockery, unstitched cloth, Italian shoes, perfumes from Paris and even aphrodisiacs neatly packed in tiny square boxes with instructions in Chinese and Russian, hidden under labels in English.



Tribesmen shop for refrigerators, televisions and air conditioners at Hayatabad market outside Peshawar in northern Pakistan. All the items for sale are smuggled goods

den under labels in English.

The market and other similar sites across the country are catching the eye of a growing number of businesses who are opposing the government's plans to introduce a VAT-style general sales tax.

At a time when markets such as Hayatabad freely sell goods without charging any additional taxes, other businesses say the sales tax would break their back because it

would further encourage their clients to buy smuggled goods.

"Whichever government has come, the menace of smuggling has only grown," laments Mr Tahir Khaliq, a top businessman in Karachi, Pakistan's southern most city and the country's business capital.

In over a year, one of Mr Khaliq's company has produced just over 1,000 'Peacock' televisions, although he had initially planned to assemble

and sell twice that many.

Mr Khaliq traces his troubles back to a place such as Hayatabad, over 1,600 km away, where shopkeepers can easily beat his prices.

"Our customers are being offered the same goods at up to 60 per cent of our price, and the goods are even delivered at their doorsteps," claims Mr Khaliq, referring to the well-organised smuggling trade, reputed to have an annual

turnover of Rupees 100bn (\$2.18bn).

The smuggling business flourishes in part due to widespread corruption in the police and taxation departments. Moreover, Pakistan's agreement to provide transit facilities for imports by businesses based in neighbouring Afghanistan is widely abused.

Yet, companies in remote places there place orders for a large number of refrigerators, freezers and so on. "Why is that so," asks a senior government official. He says Pakistani smugglers in collusion with Afghan businesses take the imported items to cross the Afghan border using the transit facility, and then bring them back using remote mountain tracks.

Privately, senior officials say the government is considering ways to curb the traffic in items for which there is little or no demand in Afghanistan. But it has to act fast and finalise its proposals before next summer, when a 30-year-old bilateral trade agreement comes up for renewal.

But the same officials also acknowledge that a solution is difficult, especially as Islamabad does not want to erode its diplomatic influence over Afghanistan, which it has gained since it began backing the Islamic mujahideen resistance to the Soviet occupation in 1979.

## UK wins big HK contracts

The building boom in Hong Kong shows little sign of slackening for British companies with the award of two further orders for construction on projects worth a combined \$110m, (\$165m) writes Andrew Taylor, Construction Correspondent.

Tarmac in a joint venture with Kimmagui Gum, the large Japanese construction company, has won a \$55m contract to design and build a new rail tunnel under the harbour linking Hong Kong island with the West Kowloon peninsula.

The project, involving a 2.5 mile, twin-track immersed tube tunnel, will form part of a link with the new airport at Chek Lap Kok near Lantau island. Work on the tunnel is to start immediately and is due to be completed early 1998.

Taylor Woodrow, another UK group, in a separate deal, has won the contract to manage the \$50m redevelopment of Kowloon station, from the Kowloon Canton Railway Corporation.

## \$200m VAT loss from piracy

West European governments lost at least \$200m (£133m) in 1993 through VAT avoidance because of computer software piracy, according to figures published this week, writes Alan Cane. Their losses were small, however, compared with those of the major software companies who conservatively lost a total \$737m according to the Software Publishers Association, with a further \$436m lost by software distributors and retailers. The total loss of \$1.17bn comes close to equalling the \$1.6bn of software sold legitimately by software publishers in western Europe last year.

The SPA comprises most of the world's major software houses, principally US-owned, including Microsoft, Lotus and Apple. It has been campaigning vigorously against counterfeiters, securing court orders to enter offices and confiscate suspect disks and computers.

## EU trade boost for South Africa

The European Union said South Africa would be admitted to the generalised system of preferences shortly and a range of other accords with the country, including a formal trade treaty, were likely to follow soon afterwards, writes Mark Suzman in Johannesburg.

Earlier this week Mr Erwan Foné, the European ambassador, said he expected South Africa to be added to the GSP, a concept developed by the UN Conference on Trade and Development.

Under its developing nations are granted virtually tariff-free access to the European market for manufactured and semi-manufactured goods, within the next month.

EU foreign ministers agreed in principle to the move in April but waited until after the elections to formalise it.

Mr Foné also said that the EU had already made representations to the new South African government on a future trade agreement and he expected a final deal to be reached relatively quickly.

## Way clear for Philippines debt talks

By Nancy Dunne in Washington

The International Monetary Fund will grant the Philippines a \$630m (\$418m) "exit facility" by the end of this month, enabling it to start on debt negotiations with the Paris Club of creditors, according to Mr Riza Navarro, the Philippines trade and investment secretary. "Then we'll be on our own," he said.

Although soft loans will still be needed, the country's coffers are flush with foreign exchange. Reserves are at a high of \$7.2bn and the equal of four months of imports which, he says, is "getting on the high side".

Galvanised by the country's widely praised fast-track power programme and a new enthusiasm of the capital

markets, Mr Navarro was in Washington to guard Filipino interests in the Generalised System of Preferences which gives tariff-free status to selected imports from developing countries.

The US has also removed the Philippines from its "priority watch list" of countries whose laws or enforcement of intellectual property statutes are lax. This paves the way for increased high technology production facilities, Mr Navarro said.

The government of President Fidel Ramos has moved on several fronts to boost trade and investment. A new law expands the scope of permissible build-operate-transfer deals.

The previous concentration on energy and transportation has been

expanded to include solid waste management, information technology, data base networks, health and education facilities, and any infrastructure project authorised by the government.

It is also comprehensive in the types of arrangements permitted. A public utility franchise requires that 60 per cent of equity in the operating corporation must be domestically owned. However, among new options, foreign companies can now build a facility, lease it and transfer it or rehabilitate a project, operate it and transfer it.

The previous 12 per cent ceiling on equity returns has been replaced by a "reasonable returns" requirement to be set by market conditions.

The impact of the law, along with a new value added tax, has been to spur

project approvals from \$3.5bn last year to \$9bn in the first five months of this year.

Banking legislation, signed by President Ramos two weeks ago, is also expected to boost trade and investment. It will allow the entry of 10 new foreign banks to the country - four others have been there for more than 50 years when the door to new entrants has slammed shut.

"There is a lot of interest from the US, Japan, Europe and other Asian countries," Mr Navarro said. Banks usually bring their clients, who bring more investment and facilitate trade.

The hope is that the new capital and foreign competition will drive down interest rates nets, now at 18 per cent for borrowers.

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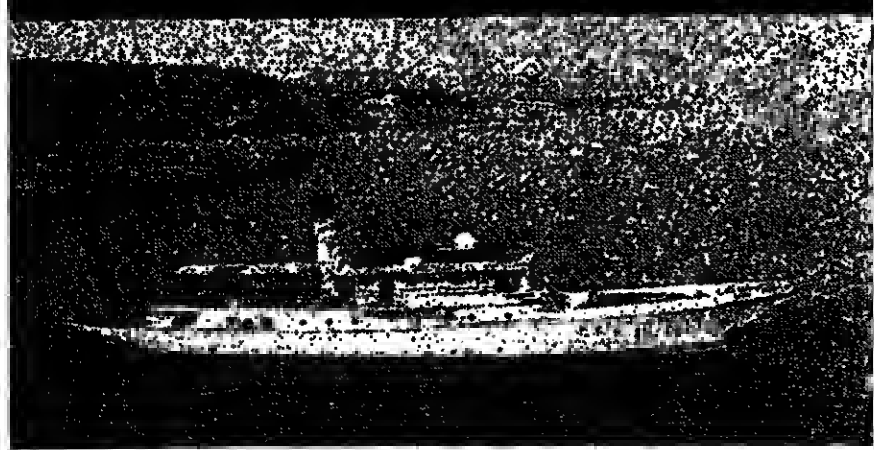
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## NEWS: THE AMERICAS

# Separatists warn Quebec institutions

By Bernard Simon in Toronto

Quebec separatists have caused controversy in Canada's investment community over the past week by threatening to withdraw business from banks and securities firms which draw attention to the economic costs of a possible breakaway by the francophone province.

The threats come amid nervousness in financial markets about the forthcoming Quebec election, which is expected to be held in September.

The separatist Parti Québécois (PQ) is well ahead of the ruling Liberals in public opinion polls. If it wins, the PQ has promised to hold an independence referendum within a year of coming to office.

Mr Jacques Parizeau, the PQ's leader, urged Quebecers to shun Bank of Montreal, one of the biggest financial institutions in the province, after the bank's chief economist warned that the PQ would create "a great deal of fear" in financial markets if it treated an election victory as a mandate to launch independence negotiations.

A similar warning last week by Wood Gundy, a Toronto-based securities dealer, elicited a veiled threat from the PQ that the firm risked exclusion from underwriting the provin-

ince's bonds, if the separatist group comes to power.

The political uncertainty has contributed to a widening gap between Quebec and other Canadian bond yields, as well as rising spreads between Canadian and US government bonds. Foreigners hold an estimated 25 per cent of Canadian public-sector debt.

The spread between Quebec and federal government 10-year bonds has grown in the past month from 85/100ths of a percentage point to about 1.03 points.

By contrast, bonds issued by the province of Alberta now yield only 50 points above federal government issues.

PQ leaders hope to reassure Quebec voters that a breakaway will be relatively painless, since an independent Quebec would continue to benefit from the North American free trade agreement and from close economic ties with the rest of Canada.

An economist at one domestic bank said yesterday that it was impossible to make an accurate forecast of Quebec's economic prospects under an independence-minded government.

But he noted that uncertainty among foreign investors about the future shape of Canada "is inevitably going to cause some dislocation in financial markets."

# Firebrand ignites Mexican poll

Damian Fraser on the opposition candidate threatening continued rule by the PRI

A few months ago he was dismissed as a right-wing eccentric with a loud voice. Now Mr Diego Fernández de Cevallos, presidential candidate of Mexico's conservative opposition, is mounting a serious challenge to the governing party's 65-year hold on power.

Public support for Mr Fernández de Cevallos, the candidate of the National Action party, has surged after his clear victory in the televised debate between the three main candidates. In less than a month, he has moved from third place to being close to or ahead of Mr Ernesto Zedillo, the ruling Institutional Revolutionary party (PRI) nominee, in opinion polls.

A trial lawyer and experienced parliamentarian, Mr Fernández de Cevallos has proved a far more engaging and colourful speaker than his sombre rivals. Easily identified by his sprawling beard and cigar, his confrontational but good-humoured style has turned him into something of a folk hero for Mexicans looking for an alternative to the cold technicians who have run the country for the past decade.

His description of Mr Zedillo as a "good little boy with high grades who has not passed the test of democracy" may have done more to define the PRI candidate than months of government propaganda. His withering attacks on Mr Cuauhtémoc Cárdenas look to have finished off the presidential ambitions of the candidate of the left, once considered the strongest of the two opposition nominees.



An engaging and colourful Fernández de Cevallos: 'We have finished the myth that the candidate of the PRI is invincible'

Mr Fernández de Cevallos still faces considerable obstacles in his quest to unseat the PRI, and even some supporters acknowledge that he has at best an outside chance of victory. With memory of the debate fading, there are already signs that his support is beginning to soften.

The ruling PRI is better organised than the PAN, has more money and is backed by the television networks, the unions, big business and the farmers' organisations. Polls

show that voters are more confident of its ability to manage the economy and worried about political instability that might follow a change in government.

The PAN's core support is the urban middle-class, and even within that group many are suspicious of its conservative, pro-church views on social policy. The party is hardly represented in the rural parts of Mexico, where 30 per cent of Mexicans live, a weakness not reflected in the opin-

ion polls, which generally exclude voters in the countryside.

But the surge in popularity of the combative Mr Fernández de Cevallos has revealed the vulnerability of the PRI and the volatility of the electorate. Even if Mr Fernández de Cevallos does not win the election, he could draw enough votes to prevent the PRI winning majority control of the Congress, forcing it to govern with the support of the opposition for the first time.

Apart from his success in the debate, Mr Fernández de Cevallos's campaign has benefited from discontent with the government, fuelled by economic stagnation and political turmoil that began with the peasant revolt in Chiapas over New Year. He has cleverly positioned himself as the candidate of change, but who unlike the leftist opposition, can maintain political and social order.

"We have finished the myth that the candidate of the PRI is invincible," Mr Fernández de Cevallos said in a recent interview. "All of society is demanding change, indicating that the moment of the PAN has come."

His message of conservative and cautious political reform may have been given a boost by the assassination of Mr Luis Donaldo Colosio, the former PRI presidential candidate. The murder of the PRI candidate, along with recent kidnappings and an increase in drug-related violence, appears to have shifted public opinion to the right, helping Mr Fernández de Cevallos at the expense of Mr Cárdenas.

Unlike Mr Cárdenas, Mr Fernández de Cevallos approves of most of the pro-market economic policies of the current administration. If elected, he says would fully open sectors such as banking to foreign capital, allow limited private investment in the protected petroleum industry, introduce more competition in telecommunications and broadcasting, and decentralise federal powers to the states.

But compared with the detailed positions put out by Mr Zedillo, Mr Fernández de Cevallos's proposals are vague, and among his small team of advisers there are no well-known economists or businessmen. In some economic policies, he is probably to the left of the governing party, keener on protecting small businesses from the effects of free trade and, for example, supporting a controlled devaluation of the currency of about 20-25 per cent.

To reassure voters worried about his lack of administrative experience, Mr Fernández de Cevallos says he will invite members of other parties to join his government. Advisers to Mr Fernández de Cevallos encourage rumours that Mr Pedro Aspe, the finance minister, will be asked to remain in his job if their candidate wins the presidential election.

Mr Aspe has yet to comment on such rumours. But if the campaign remains close, the pressure on him and other well-trained officials in the governing party to distance themselves from the firebrand candidate of the centre-right opposition is sure to grow.

# US-Japan banking accord

The US and Japan agreed yesterday to include banking and other financial services in negotiations to pry open Japanese markets to more American goods, AP reports from Paris.

Mr Mickey Kantor, US Trade Representative, said the trading partners also decided to discuss ways to ensure the protection of copyrights, patents and other intellectual property.

The new sectors will be part of so-called framework talks, which are aimed at improving American access to Japan's tightly closed markets.

The two nations recently broke a three-month deadlock to get negotiations going again.

The original sectors - still under negotiation - are cars and car parts, medical equipment, telecommunications products and insurance.

Mr Kantor said negotiators held talks yesterday in Paris on financial services but he had no report of the outcome.

There will also be talks on films and other audiovisual products.

# Chilean trade surplus grows

Chile posted a \$35.2m (\$63m) trade surplus in the first two weeks of May, bringing this year's accumulated surplus to \$334.2m, the Central Bank reported yesterday. AP reports from Santiago. Last year, Chile posted a \$63.2m deficit from January to mid-May.

Government officials attributed the unexpected continued surplus mainly to recovery in world markets of the prices for some key Chilean export products, including copper, fruits and fish meal.

# Intervention in Haiti ruled out

The Organisation of American States has ruled out military intervention to restore democracy in Haiti, but is expected to ban commercial flights and tighten economic sanctions, officials said yesterday. Reuter reports from Belem, Brazil.

# Concern over exports as Argentina trade deficit widens

By John Barham and Stephen Fidler in Buenos Aires

Argentina's trade deficit widened sharply in the first four months of the year, further raising concern over the country's export competitiveness and the sustainability of its fixed exchange rate.

Latest figures show the deficit grew nearly five-fold to \$2.4bn (\$1.59bn) from \$500m in the same period last year. But analysts expect

a deficit of about \$7bn for the year, roughly double last year's trade gap. Argentina has run a trade deficit nearly every month since Mr Domingo Cavallo, economy minister, pegged the currency to the dollar in April 1991.

But he denied the trade figures were alarming because they showed on the one hand a sharp increase in exports of manufactures and on the other a large inflow of capital goods.

The deficit was due mainly to sluggish exports of agricultural and industrial commodities.

Investment was 28 per cent higher in the first quarter compared with a year ago, while consumption grew only 4 per cent, Mr Cavallo added.

"For the first time ever, investments have resulted in productivity gains allowing an increase in exports despite growing domestic demand."

In the past, when the economy

grew, as it is now, exports fell. Now, said Mr Cavallo, "exports of manufactures are showing an increase of 28 per cent, achieved through an increase in productivity. I have no doubt Argentina will have a greater ability to export owing to increases in productivity."

He emphasised that a large proportion of the imports were composed of capital goods, indicating companies were investing more and laying the foundations for a strong

export sector. In the first quarter, government figures show imports of capital doubled to \$1.53bn.

However, analysts complain government statistics are poor, making it hard to corroborate this. They suspect the government is over-estimating the volume of capital goods imports.

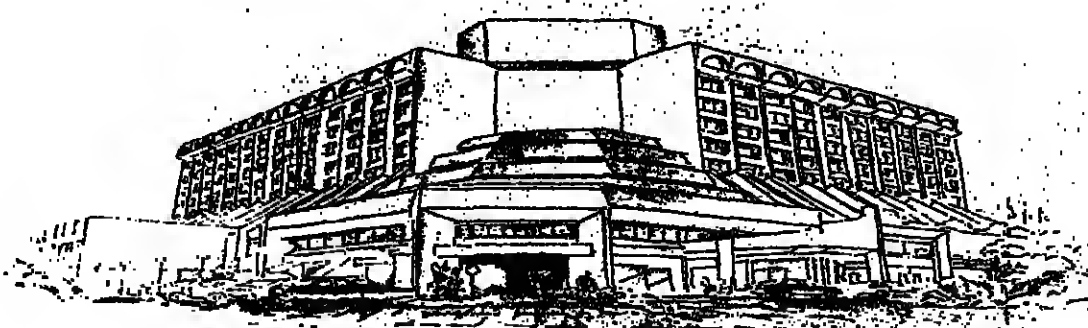
Mr Francisco Macri, president of Socma, one of Argentina's most powerful industrial groups, said yesterday: "There are few imports

of capital goods and more imports of consumer goods and this is not good."

Mr Macri, whose companies build nearly half the cars made in Argentina, claimed car imports alone last year were worth \$3bn.

Despite the disappointing trade figures, inflation continues to fall. In May, retail prices rose 0.3 per cent, bringing the 12-month figure to 3.4 per cent, the lowest in 41 years.

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FINANCIAL TIMES MAGAZINE







## BUSINESS AND THE ENVIRONMENT

## Eco-index charts corporate efforts

Hilary Barnes examines the growth of in-house environmental reports

Novo Nordisk, the Danish health care and industrial enzymes group, has developed a new tool for use in corporate environmental analysis, an environmental performance indicator or "eco-productivity index". It was included in the group's first corporate environmental report, a detailed 42-page production published recently.

"The index enables us to make precise environmental comparisons from year to year," says Steen Riisgaard, a Novo Nordisk director. It also enables the group to set measurable goals for improvements in performance.

Riisgaard heads the group's bio-industrial division, which operates the fermentation facilities for the production of enzymes and the health care division's insulin and human growth hormones. These facilities produce most of the group's waste.

The concept of the index was welcomed by John Elkington, partner in the UK environmental consultancy SustainAbility, which last year published Coming Clean, a survey of corporate environmental reporting.

Elkington and his colleagues have provided a verification of Novo Nordisk's report as "a fair and honest reflection" of the company's policies. He gave the report high marks in comparison with reports by other companies. He described the index as "very useful" and hoped other companies would adopt the idea.

The index is derived by dividing the volume of output sold by the volume of inputs, such as water, energy, raw materials and packaging. The index rises if the company is successful in producing more per unit of input.

Taking 1990 as the base year (-100), the index shows an improvement on the raw materials side of 19 per cent, for water of 31 per cent, for energy of 33 per cent and for packaging of 19 per cent. The group has set specific targets for annual improvements in each of the indexes of 4 or 5 per cent a year.

The Danish group claims to be the world's biggest producer

of insulin, used to treat diabetes, and industrial enzymes, which have a wide variety of applications - in detergents, for breaking down starch into sugar, extracting juice from grapes and giving jeans a stone-washed look without using pumice stones.

The group uses 214,000 tonnes of raw materials, 3.4m gigajoules of energy, 4m cubic meters of water, 7,700 tonnes of packaging materials and distributes 61,300 tonnes of products. The eco-productivity index is only one aspect of the group's efforts to achieve "sustainable production".

A second crucial factor is the achievement in recycling waste products. About 40 per cent of the water used at Novo Nordisk's main production facility in Kalundborg, Denmark, is recycled, mainly by selling it to farmers with sludge from the fermentation tanks.

However, before the water reaches Novo it has already been used for cooling in an oil refinery, which passes it on as process steam to a local power utility. Only then does it arrive at Novo Nordisk - an example of industrial symbiosis, which economises on water resources from a nearby lake.

Some 43 per cent of liquid waste was recycled in 1993, either as sludge for fertilising fields or as pigfood (inputs for fermentation include soya meal, sugar and maize flour) compared with 25 per cent in 1990.

It was with mixed feelings that Novo Nordisk undertook to provide a corporate environmental report, says Mads Ovielsen, group chief executive. The group has a long history of seeking to be a good global citizen on environmental questions; and the fact that Novo Nordisk is based in a country where environmental consciousness is well developed and environmental legislation is rigorous, has stimulated the group's interest in the issue.

But, says Ovielsen, a detailed environmental report also provides information of use to competitors, prompting internal opposition to the report plan.

A battle is raging in the US Congress over legislation which could determine the future of the country's mining industry. At the heart of the debate is a law which allows miners to gain title to public lands for a nominal fee: a maximum of \$5 (£2.30) per acre. Under the law anyone, from individuals to international conglomerates, is guaranteed the right to excavate, as long as proof of substantial hardrock mineral deposits is furnished.

Mining industry proponents believe the sector should continue to receive breaks in the interest of maintaining and creating jobs. "What's at stake here is nothing less than the survival of mining in this country," says Jack Gerard, representative for the Mineral Resource Alliance, an industry organisation. "If we make mining too expensive, we will drive the sector overseas."

Environmentalists, however, accuse the industry of hitching a free ride on the back of taxpayers and wreaking ecological havoc. They want a revision of the law which will demand compensation for use of the land and enforce tougher environmental regulations.

At least some modification to the law is expected by early next year. Two versions are currently being floated in Congress. The Senate bill, favoured by the mining industry, would impose royalties of 2 per cent on minerals extracted. The House bill, favoured by environmentalists, would impose royalties of 8 per cent and impose stricter ecological standards.

The law which has environmentalists on the warpath was created

## Visions of how western lands should be managed in modern America diverge dramatically

In 1872, when the US was a very different country, the federal government wanted to speed up settlement of the Wild West and created the mining law to encourage prospectors to try their luck on the great frontier. Visions of how western lands should be managed in modern America, however, diverge dramatically between environmentalists and the mining industry.

Environmentalists see corporations ravaging the land without paying the government just compensation. "Pollution from a copper mining site in Butte, Montana, extends 100 miles downstream in the Clark Fork river," says Philip Hocker, president of the Mineral Policy Centre, an environmentalist group in Washington DC.

Plans to revise an 1872 law on mineral excavation rights are fuelling a row between the US mining industry and the green lobby. Victoria Griffith reports

## Rich seams in a Wild West war

"The mining company left the tailings sitting there and every time the river rises, it kills off fish," Hocker says. "Or take Summitville, Colorado, where the mining company Galactic Resources poisoned 17 miles of river. It went bankrupt and US taxpayers had to pick up a \$100m clean-up bill."

Proponents of the law, however, see entire communities being revived by mining activity. "In Challis, Idaho, a molybdenum mine has just opened up again, and turned what was a modern day ghost town into a thriving community," says Idaho's Senator Larry Craig, who has sponsored the 2 per cent royalty bill. "The new school will open this fall, houses that sat idle for years are being sold, and the mine has created about 350 to 500 new jobs."

The storm over the mining law is part of a wider debate over the use of some 500m acres of land owned by the federal government in the western part of the country. The Clinton administration has launched several attacks on commercial use of public land since it came into power, including attempts to raise grazing fees for livestock and the blockage of lumber extraction.

The president's approach on the public lands issue has met with mixed success. Industry is outraged over attempts to prevent the use of public land, while environmentalists are furious that the administration has not gone further to protect the areas.

The Clinton administration's first attempt to throw out the mining law failed. Interior Secretary Bruce Babbitt had tried to prevent Canadian-based Barrick Goldstrike Mines from gaining title to 1,800 acres of public lands containing about \$10bn in gold deposits in Nevada. On May 16, a federal judge, citing the mining law, ordered the secretary to hand over the title.

"This is the biggest gold heist since the days of Butch Cassidy," says Babbitt of the court rule. "But



Abandoned mining wastes at Fisher Creek near Yellowstone National Park

these folks stole it fair and square."

Environmentalists are particularly concerned about damage to water sources. Substances like mercury, which can poison fish supplies, are often used to extract the metals. Toxic acid mine drainage, triggered by the exposure of ores to air, can also cause severe problems, especially if it reaches the ground water. Ecologists also complain

about the air pollution created by smelters and the surface devastation mining can cause.

Mining proponents say ecologists are hitting the industry at a time when it has already been weakened by slack metals prices. "At a time of low world prices, the mining sector cannot afford onerous royalties," says Linda Fladley, director of government relations for the copper

mining group Phelps Dodge. "We need to go where it's most advantageous to mine, and if it gets too costly in the US, we'll move our business overseas."

Other supporters of mining on public lands cite the need for metals and minerals supplies for national security reasons. "We cannot afford to be entirely dependent on other countries for our mineral supplies," says Senator Craig.

The mining industry's trump card, however, is jobs. The 8 per cent royalties which would be imposed by the House bill would cost between 35,000 and 45,000 jobs in the sector, say proponents of the 1972 law, and more jobs would be shed in support sectors. Environmentalists claim these figures are inflated, but there is no question that the jobs issue has garnered much support for public land mining from western state representatives and senators. "The 8 per cent royalty bill is a save-the-environment-to-beck-with-the-jobs approach," says Craig.

The Congressional battle which will ensue over the next few months is expected to be fierce. Royalties are only one part of the debate. The House bill would give the federal government the right to block mining entirely, if activities cause more than "minimal disturbance to the environment". Mining companies are also nervous about tougher reclamation standards and the bill's insistence that cutting-edge technology be used whenever possible to minimise ecological damage.

Although industry is solidly opposed to the House bill, it may emerge victorious. Public opinion has been rallying behind the revision. "Our strategy is to try to create public indignation over the issue," says Kathryn Hohmann, director of public lands of the Sierra Club, an environmentalist group. "We're trying to get the message out that these people are tearing up public lands, and they're doing it for free."

The mining industry believes it has been the victim of misinformation. "The propaganda doesn't take into account that a lot of public lands are already protected through the national park system," says Jack Knebel, president of the American Mining Congress. "This is not about mining Yellowstone." However, Knebel concedes that the sector may be losing on the public relations front. "It will be an uphill battle for us as far as public opinion goes," he says.

That the 1872 law will stand as it is seems doubtful. Mining companies will almost certainly be forced to pay something for the use of public lands in the future. What is uncertain is how high royalties will be and whether tougher environmental standards will be enforced.

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## MANAGEMENT



Innovative thinkers past and present: Albert Einstein, Jack Welch of General Electric of the US, Edwin Land of Polaroid and Luciano Benetton of the Italian clothing group

## Use your intuition

Rationality is in retreat as a business tool, writes Christopher Lorenz

Einstein once declared: "I never discovered anything with my rational mind." On another occasion he claimed that "imagination is more important than knowledge". In practice, he used a combination of reason and intuition.

Edwin Land, the founder of Polaroid, the US photography group, worked in very similar fashion. So, in many respects, do innovative modern leaders such as Ingvar Kamprad, founder of Swedish-based furniture retailer Ikea, the Benetton family of the Italian clothing group, and even some ultra-numerate Americans - notably Jack Welch of General Electric of the US. They use intuition not just occasionally, to generate "visions" for their company's future strategy, but also in everyday decision making.

Yet, for more than 30 years, a management world whose prime task should be the creation of businesses has treated intuition as a dirty word. Marginalised by the rise of "scientific", ultra-rational management - especially in strategic analysis and planning - intuition became associated with a discredited, uninformal style of management known as "seat-of-the-pants".

But now, as companies search for ways of creating more businesses, and with excessive rationality in retreat after more than a decade of strategic planning disasters, intuition is making a comeback.

The problem is how to integrate it with the rigour and deep understanding of markets, technologies, strategy and competitive behaviour which managers need at a time of global competition, complexity,

uncertainty and rapid change.

In the last few months two books have been published which extol the virtues of intuition, try to explain it, and advise how it can be exploited.

One, called *Intuition - The New Frontier of Management*, comes from three authors connected with the International Institute for Management Development in Lausanne.

Among the many findings of the book - and of a nine-country international survey which it contains - is that Japanese managers are much more intuitive than they realise (or admit), while Swedes are far less so than they think. Americans and Britons rate pretty high objectively, and know it. The study

The IMD book, written by an Indian company managing director, Jagdish Parikh, with two academics, Friedrich Neubaier and Aiden Link, tries to explain in simple language what intuition is - and is not - and suggests practical ways of using it profitably.

In the past, it argues, managers sometimes resorted to intuition because of inadequate data or information. Now computers churn out so much information that the use of intuition is essential in order to make sense of it quickly. Conventional mental activities - absorption of information, retention and reasoning - are now inadequate.

As Parikh and his co-authors argue, it is an innovative, largely

nature of intuition. Both Mintzberg, and Parikh and his co-authors, cite a wide range of confusing definitions (see panel). But at least Parikh and co are certain of what intuition is not: instinct, impulse, ingenuity, inspiration, intellect, intelligence or wishful thinking.

On the basis of their broad definition of the term, they describe various techniques for enhancing managers' innate intuition, and applying it in practice, especially in the thought process involved in creating a corporate "vision". By comparison, they give only sketchy advice on how intuition can be applied in everyday practice. They also fail to deal adequately with the question of how managers can distinguish informed intuition from ignorant "gut feel".

More than half the 1,300 senior and top managers covered by the survey claimed to use intuition and logic or reasoning in roughly equal measure. But this was not borne out by the objective evidence which the survey gathered through a complex questionnaire. More accurately, a large minority of 40 per cent said they used logic and reasoning more than intuition.

The survey showed that age makes little difference to a manager's intuitive ability. But the 45 to 59-year-olds were rated slightly higher than others. On the other hand, top managers scored less well in objective tests than their senior colleagues, but thought themselves superior.

\* Blackwell, £35  
\*\* The Rise and Fall of Strategic Planning, Prentice Hall, £19.95

David White looks at Gillette's controversial decision to close its Seville factory  
A boss's life at the sharp end

Every day Alberto Morales goes to his office at a factory near Seville and stays inside until it is time to go home. He no longer visits the shopfloor, even though he is the boss - or rather, because he is the boss.

Two bodyguards, ordered by Morales' US superiors, wait outside to accompany him off the premises. His house is under 24-hour guard.

Life for the general manager of Gillette's Spanish manufacturing subsidiary has been like this since the morning of March 18 when he told the works council the company had decided to close the factory.

Gillette is abandoning the Seville facility, employing about 250 people in the industrial zone of Alcalá de Guadaira, in order to concentrate European razor-blade production at Isleworth, west of London, and Berlin. The announcement - recalling the now early last year over Hoover's plans to move vacuum-cleaner production from eastern France to Scotland - has provoked bitter protests.

The Andalucía regional government contested the legality of the move. The Spanish industry ministry described it as "a provocation". And one senior labour ministry official floated the idea of a Gillette boycott.

Spain's labour laws allow for collective redundancies on certain specified grounds, but Gillette's move did not seem to correspond to any of them. Recently approved reforms, designed to make the rules more flexible, will allow authorised cutbacks for reasons of reorganising production. Senior government officials insist that this is intended to cover reorganisation within Spain, not cross-border transfers.

The Seville closure is part of a "realignment" announced by the Boston-based consumer products group in January, affecting 2,000 of its 34,000 employees worldwide. The lost jobs, mostly outside the US, are expected to be replaced by jobs elsewhere, including China,

Russia and Poland, where Gillette has new ventures.

Gillette does not justify the Seville decision on grounds of new technology or economic problems. "The reason for closure is not that it is unprofitable," says Morales, "but that it is superfluous."

The plant, which enabled Gillette to exploit what was then a highly protected Spanish market, still makes the old-fashioned double-edge blades, the only Gillette plant in Europe still to do so. It has two other lines, the twin-blade disposable razor known in Europe as Blue II and in the US as Good News,

of personal attacks from employees but does not want to go into details. This is, after all, the place he has spent his whole career, with the exception of two years at Gillette headquarters in Boston.

Morales "had to accept" the US management's decision to discontinue the Spanish operation. Having accepted the role of executioner, he is not optimistic that Gillette will provide a suitable alternative post when it is over. "I know they could only offer me somewhere like India," he says, evidently not keen on the idea. "In Europe I don't fit. I am a factory manager, and there are two factories in Europe."

Morales says Gillette concentrated its modernisation effort in the UK and Germany because of government support. "Here we have not had any government subsidy," he says. Improved production methods have left Isleworth and Berlin with excess capacity.

Gillette has already reduced its Seville workforce by about 60 per cent since the mid-1980s, getting rid of activities in the group's perfume and writing-instrument divisions.

To avoid lengthy administrative procedures, Spanish companies tend to offer the maximum redundancy compensation of 45 days' pay per year's work.

Gillette's standard package has added to this an extra 10m for every five years' seniority. Morales hints it may pay even more this time to achieve a negotiated settlement.

It took more than two months of confrontation before the works council agreed to hear the company's preliminary offer (on May 25). The open-ended proposal includes a retirement plan, outplacement services and a range of insurance policies.

Like a ship's captain, Morales will be the last to leave. He will stay on until next year to liquidate the company. Then, at 54 and after six years as general manager, he expects to be out on the street.

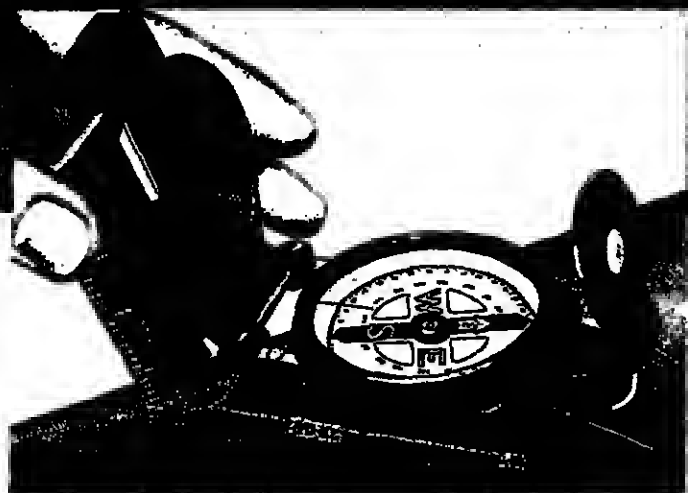


and the Gil, the original twin-blade fixed razor head.

Morales, an engineer who joined the plant 20 years ago, was called to London to receive advance notice of the plan for Seville. "It was a surprise," he says. "I always knew the factory would end up being closed, but I thought it would happen little by little. In two or three years the factory would have died by itself."

Instead he now finds himself in the firing line. "I live in this office," Morales says grimly. He has not even tried venturing into the main part of the factory, where production has been going on as normal. "It is better to maintain calm," he reckons. He says he has been the target

## On track and heading in the right direction



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The DePfa-Bank Group:	1993	% change
Balance sheet total	DM 111,271 m	+ 20%
New loan commitments	DM 33,362 m	+ 40%
Total loans outstanding	DM 99,276 m	+ 18%
Primary sale of securities including loans taken up	DM 32,909 m	+ 84%
Securities outstanding including loans taken up	DM 90,107 m	+ 23%
Operating profit after loss provision	DM 193 m	+ 10%
Proposed dividend for 1993	20%	(1992: 16%)

For further information and a copy of our annual report contact: DePfa-Bank, Head Office, Paulinenstraße 15, D-65189 Wiesbaden, Fax: + 49 611 348 548



**DePfa-Bank**  
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## Non-executive directors



Sir Marcus Fox (above), 65, Tory MP and chairman of the party's 1992 committee, has joined the board of Pubmaster, the pub retailing arm of the heavily indebted Brent Walker group.

Sir Marcus' appointment as a non-executive director is a further sign that one of Britain's biggest pub-owners is likely to be floated on the stock market over the next year or two. Last year it made operating profits of £11m on sales of £100m. Pubmaster, chairman John Brackenbury, 58, said that Sir Marcus has an impressive track record in industry as well as in politics.

■ David Tucker has resigned from FTTARDS.  
■ James Long, a corporate finance director in Lichfield, at THE FLEMING FAR EASTERN INVESTMENT TRUST.

■ William Roper has resigned from ROPNER.  
■ Hans Werdelin, ceo of Sophus Berendsen, as vice-chairman of RENTOKIL on the resignation of Edebe Christensen.

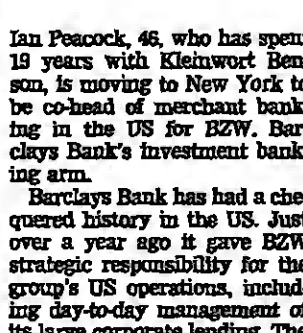
■ Lord Gregson has retired from FAIRBY.  
■ Sir Christopher Harding has resigned from SLOUGH ESTATES.

■ Peter Batchelor, retired director at Vauxhall, Harry Fryer, md of Sema Group's UK operations, and John Rose, a director of Rolls-Royce, at EURODOLLAR (HOLDINGS).

■ Tony Orton, retired director of Marks & Spencer, at UNITED FRIENDLY GROUP.  
■ Leonard Cowburn, retired deputy chairman of William Hill, at STANLEY LEISURE ORGANISATION.

■ Michael Sayers, former corporate finance partner at Norton Rose, at EMESS.  
■ Adrian White has retired.  
■ Jack Shepherd has retired from SPTRAX SARCO.  
■ Sir Ian McLeod has retired from SEEBARD.

## Peacock leaves for New York and BZW



Ian Peacock, 46, who has spent 19 years with Kleinwort Benson, is moving to New York to be co-head of merchant banking in the US for BZW. Barclays Bank's investment banking arm.

Barclays Bank has had a chequered history in the US. Just over a year ago it gave BZW strategic responsibility for the group's US operations, including day-to-day management of its large corporate lending. The reorganisation was in response to an increasing trend for large companies and institutions to raise funds from equity and bond markets rather than through bank borrowing.

Peacock's move to BZW follows a reorganisation at Kleinwort Benson and a chance air-

port encounter with Graham Pimlott, 44, a former colleague, now chief executive of merchant banking at BZW who has recently taken on an expanded role within Barclays.

BZW does not disclose the size of its US banking business, but it is known to be many times larger than the £2bn or so that Peacock was jointly responsible for at KB. Peacock ran the marketing side of KB's North American banking business between 1994 and 1997 before returning to the UK to be joint head of the group's lending operation. In his new role he will be primarily responsible for BZW's bank finance and structured finance products in the US. The other co-head of merchant banking



in the US is Malcolm Le May, 36, who joined BZW in 1991 after stints at Drexel Burnham and Morgan Grenfell.

Peacock is the latest ex-Kleinwort Benson banker to move to BZW. The best known is Sir Martin Jacomb, who spent 17 years with KB before helping form BZW in 1988. When Pimlott quit KB in 1989 he took with him Callum McCarthy, who now heads BZW's Japanese business.



Brian Lacombe (above), finance director of St, has been elected chairman of the British Venture Capital Association, replacing Ron Hollidge, managing director of Lloyds Development Capital. The position

rotates annually.  
The 40-year-old Lacombe joined St in Manchester in 1974 and spent 18 years on the investment side of the business before being appointed finance director in 1992.

■ The appointment of Ann Taylor to head the competition division at OfTel, the telecoms regulator, is the latest in a series of senior female appointments to the body charged with overseeing the industry.

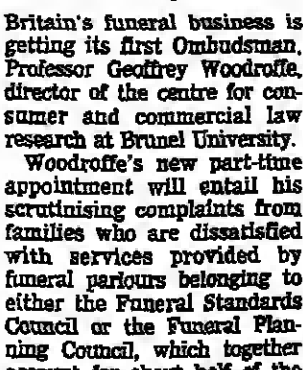
Taylor succeeds Anna Walker, who was last month appointed to succeed Bill Wigglesworth as deputy to Don Cruickshank, the director-general. Her appointment gives

women a 5-4 majority on OfTel's senior management team, with one post vacant. Taylor moves on secondment from the DTI, where she is a grade 5 responsible for regional policy.

The competition brief is one of the toughest at OfTel, with 40 new entrants to the UK's liberalised telecoms industry calling loudly for better terms for connection to BT's network. Mercury, BT's main competitor, is currently in the courts claiming that OfTel has failed to give it a fair deal.

■ Derek Baudains has been appointed md of The Louvre Trust, part of FORT GROUP HOLDINGS.

## Geoffrey Woodroffe to preside over grief and grievance



Britain's funeral business is getting its first Ombudsman. Professor Geoffrey Woodroffe, director of the centre for consumer and commercial law research at Brunel University.

Woodroffe's new part-time appointment will entail his scrutinising complaints from families who are dissatisfied with services provided by funeral parlours belonging to either the Funeral Standards Council or Funeral Planning Council, which together account for about half of the country's 4,000 funeral directors.

These two professional bodies have largely displaced the older National Association of Funeral Directors, which, established in 1979 in order to bring greater transparency to the business, was criticised by the Office of Fair Trading in 1988.

The Ombudsman's function has teeth, notably the power to order companies to pay compensation up to £50,000 to claimants whose grievances are upheld. The office is able to receive complaints backdated to - but not beyond - April 4 this year. The funeral business in the UK is worth some £1bn annually, with around 640,000

funerals taking place each year.

Woodroffe is a solicitor by training and has broad experience of commercial law both in the UK and through his diverse work for the European Commission.

The Ombudsman's council has a team of six (besides Woodroffe himself) including: Jill Moore, chairman; Peter Gibson; Cassandra Kent; Cynthia McDowell; Alan Edwards; and Gordon Kee.

The council will be promoting its work through citizens' advice bureaux and other public forums.



## EUROPEAN NEWS DIGEST

## BA to oppose French limits

British Airways is planning to challenge the French government in the European Commission in Brussels as well as through the French courts if it goes ahead with proposals to limit the size of aircraft and flight frequencies on services from London to Orly airport in Paris. Although BA will start operating services from London Heathrow to Orly on Monday, Sir Colin Marshall, BA's chairman, yesterday said that the proposed restrictions at Orly were "illegal" and would be challenged by BA. France bowed to European Commission and UK government pressure last month to open Orly to UK airline competition. But Mr Bernard Bosson, the French transport minister, said UK airlines would be restricted to four flights a day and that only larger aircraft with more than 200 seats could use Orly at peak morning and evening hours. He also said that BA and its French affiliate, TAT, would be regarded as one airline in terms of frequencies. Although BA intends to fly only four daily services to Orly this summer, it plans to operate extra flights this winter in defiance of the French proposal to limit frequencies from London.

Sir Colin also said BA would soon file an objection with the European Commission to French government plans to inject FF20bn (£2.33bn) in additional state aid to Air France. *Paul Betts, London*

## Air Inter calls second strike

Unions at Air Inter, the main domestic carrier in the Air France group, yesterday called their second 24-hour strike in three weeks in protest at the lack of "concrete" assurances at their pay and job security will not suffer as a result of new austerity measures for Air France. But the strike, called also to press Air Inter's case for more autonomy within the Air France group, was less widespread than the first one, halting about 50 per cent of flights yesterday. Meanwhile, the French government has warned the European Commission that if Brussels stops it injecting FF20bn into Air France and thereby forces the airline into liquidation, the total cost to the French taxpayer would be even greater, amounting to FF30bn. This was revealed by the Commission in its formal announcement last Friday of an inquiry into the Air France deal, which Brussels said in view of the airline's debts and losses could not be equated with the "rational" decision of a private investor. *David Buchan, Paris*

## Russian-Ukraine tensions ease

Tensions between Ukraine and its Russian dominated region of Crimea eased further yesterday when Kiev announced it would pursue a policy of flexible deadlines in response to Crimea's diplomatic concessions last weekend. Head of the Ukrainian negotiating team, Mr Volodymyr Bihutkevich, said that any actions against Crimea's pro-Russian leadership will be postponed until June 15, a date which could further delay if negotiations continue to proceed productively. The initial breakthrough was achieved late Friday night when Crimean negotiators, many of whom have advocated independence from Ukraine and reunification with Russia in the past, surprisingly backed down and signed a pro-Ukrainian communiqué.

In the communiqué, Crimea recognizes "the territorial integrity of Ukraine, of which Crimea is a part" and "the supremacy of the Ukrainian Constitution over all Ukrainian territory." The two sides, meeting on the Crimean peninsula, also decided to form a permanent joint working group to resolve their legislative differences. *Jill Borsley, Kiev*

## Little progress at Bosnian talks

The leaders of Bosnia's warring sides yesterday congregated in Geneva for a second day of talks on a proposed ceasefire but did not meet face to face promising little hope of an agreement. After separate meetings with the rival leaders, Mr Yasushi Akashi, top UN official in former Yugoslavia, said the talks would be adjourned for a later date unless the main protagonists made a "real effort" towards an agreement. As both sides quarrelled over how long the proposed truce should last, fighting was reported between Serb and government forces in northern Bosnia.

In Serbia, in a thinly-veiled attack on Bosnian Serb leaders, President Zoran Djindjic of Yugoslavia, technically head of the Yugoslav federation but seen as a puppet of Serbian President Slobodan Milosevic, yesterday said his country will not be "dragged into war" and that "millions of Yugoslav citizens" in Serb-held areas in Bosnia "cannot be hostage to one leader". *Laura Silber, Belgrade*

## Germany considers tax cuts

The German government appears to be considering corporate tax cuts in response to pleas from industry. A working group on local authority taxes group comprising federal and local government officials had identified levies on working capital and operating profits as special burdens on industry, Mr Franz-Christoph Zeitler, state secretary in the finance ministry said yesterday. However, he rejected as "false" press reports that Bonn planned to increase value added tax to cover the loss of revenue. Mr Zeitler was responding to a story in Stern magazine, quoting from what it claims to be secret ministry minutes, that the government wanted to "clarify in principle the possibility of reforming corporate taxes." *Christopher Parkes, Frankfurt*

## Reassurance by Dutch chain

Albert Heijn, the biggest Dutch supermarket chain, said yesterday that it would continue to sell Omo Power, a new generation of washing powder manufactured by Unilever, after receiving assurances about the detergent from the Anglo-Dutch consumer products group. The powder, called Persil Power in Britain, is at the centre of a highly public dispute between Unilever and its US rival Procter & Gamble, which has charged that the detergent damages clothing. Albert Heijn said it would compensate any customers who were dissatisfied with the powder if they could prove the detergent was bought in one of its 612 supermarkets. *Ronald Van de Krol, Amsterdam*

## ECONOMIC WATCH

## Setback for Spanish economy

An unexpected growth in imports halted the improvement in the current account of Spain's balance of payments in April. The monthly shortfall was marginally higher than the previous April at Pta222bn despite a sharp rise in income from tourism and other services. But the accumulated deficit for the first four months was still 30 per cent lower than the same period last year at Pta378bn (£1.82bn), according to provisional Bank of Spain figures. This reflected a 39 per cent upsurge in exports and an increased surplus from services and transfers. Tourists receipts were 29 per cent up. Some analysts believe that despite the latest figures this year could still produce a current account surplus, the first since 1988, the year of Spain's accession to the EU. Spain's gold and foreign currency reserves meanwhile decreased by \$394m in May to \$44.3bn, showing a total decline of \$933m since the beginning of the year. *David White, Madrid*

Italy's retail sales index was up 3.4 per cent in February from a year earlier, the state statistical institute, Istat, reported yesterday. In February, large retail chains registered a 3.8 per cent sales rise, while medium-sized retailers posted an increase of 1.6 per cent. *Associated Press, Rome*

New car sales in Spain rose by 31.6 per cent year-on-year in May to 87,712 vehicles, after a 7.2 per cent increase in April, according to provisional figures from the vehicle manufacturers association ANFAC.

Dutch consumer price inflation is expected to have remained stable at a year-on-year rate of 2.8 percent in May, according to a poll of bank economists.

## Spain joins drive for EU 'great leap forward'

Quentin Peel reports from a German-Spanish summit designed to give impetus to European unification

Spain will join France and Germany in a co-ordinated drive in the European Union over the next 18 months to ensure that the 1992 conference on institutional reform - the follow-up conference to Maastricht - takes further clear steps towards European integration.

Chancellor Helmut Kohl of Germany, and Prime Minister Felipe González of Spain, both passionate believers in the process of European unification, committed themselves at their summit in Schwerin, in east Germany, yesterday to close co-operation in the planning process for the next European "great leap forward".

Spain will also be involved with France and Germany in carrying through a clear programme of EU priorities during their three consecutive six-month presidencies, beginning with Germany on July 1. That will include European-wide policies to tackle unemployment, new measures to support the emerging democracies of central and eastern Europe, and a parallel programme of assistance to the countries of northern Africa.

In spite of differences of detail on questions such as the German initiative for deregulation in the EU, and the borrowing powers of the European Commission, the German

## Friendship flourished because of González's loyalty, says Kohl

For Helmut Kohl and Felipe González, their meeting over the past two days in the faded splendour of Schwerin, the former capital of the grand dukes of Mecklenburg in east Germany, had clear symbolic significance, writes Quentin Peel from Schwerin. It was the first time the German chancellor had held top-level talks with a fellow government leader in east Germany. But it was more than that. The extraordinarily good personal relationship between the two, the Spanish Socialist and the German Christian Democrat, has flourished precisely because Mr González was the only west European leader who unhesitatingly supported the German unification. For the German chancellor, where his colleagues stood on the question of unification has become a touchstone for personal relations.

It is increasingly clear that the failure

of Mr Ruud Lubbers, the former Netherlands premier, to back the unification process four years ago, is the most important single reason why Mr Kohl is not supporting him to become the next president of the European commission in Brussels.

Mr Kohl spelt out his appreciation of Mr González's loyalty in glowing terms again yesterday. He pointed out how few world leaders were, back in 1989 and 1990, who had been so positive.

In private, he names only four: Mr George Bush, the former US president; Mr Brian Mulroney, the former Canadian premier; Mr Mikhail Gorbachev, the former Soviet leader; and Mr González.

One significant exception is President François Mitterrand of France, who was clearly dubious about unification until late in the process. But the Franco-German relationship is too important to

allow that to cause more than a shadow between the two.

The outright opposition of Mrs Margaret Thatcher, who was publicly cool and privately vitriolic about unification, has caused far more lasting bitterness.

Mr Kohl mentioned Mrs Thatcher's opposition yesterday, to underline his appreciation of his Spanish colleague.

"Some women colleagues have written it in their memoirs," he said. "If you read what Mrs Thatcher says, you can see she thinks it was all a terrible mistake. So you can see how important it was that Felipe González supported the process."

"You belong to those who, in many critical talks, explained again and again that German unity was not a thing for the Germans alone, but was a good thing for the Europeans, and for the free world," he told the Spanish premier yesterday.

"We both agreed that we would talk intensively with as many colleagues as possible in order to reach the greatest possible degree of unity on a name," Mr Kohl said. "It would not help to discuss it in public."

Their message instead, only days before the European parliament elections, of their absolute common commitment to European integration, in spite of their ideological differences.

"From a European perspective, everything is allowed which positively influences European policy," Mr Kohl said after a day of bilateral consultations. "From my point of view, Europe includes the British Isles," he added, apparently concerned that his ideas might offend the UK.

He said that the main themes of the forthcoming German presidency, which would now be developed in conjunction with France and Spain, would be the whole field of job creation and European competitiveness, extending the field of common foreign and security policies. They would also include developing common policies on immigration, law and order, fighting drug trafficking and organised crime, and "everything which belongs to the theme of preparing the 1996 conference to follow up the Maastricht treaty".

## Sleeping in Business Class. A brief history.



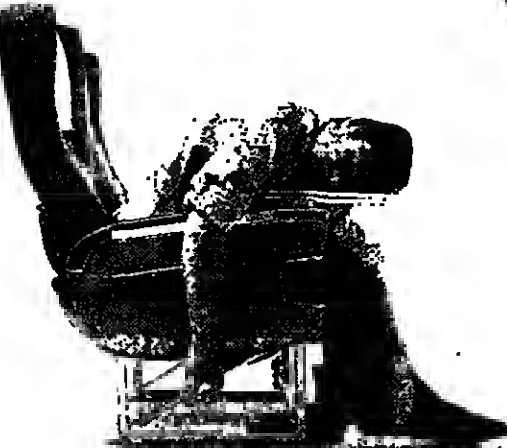
1968



1978



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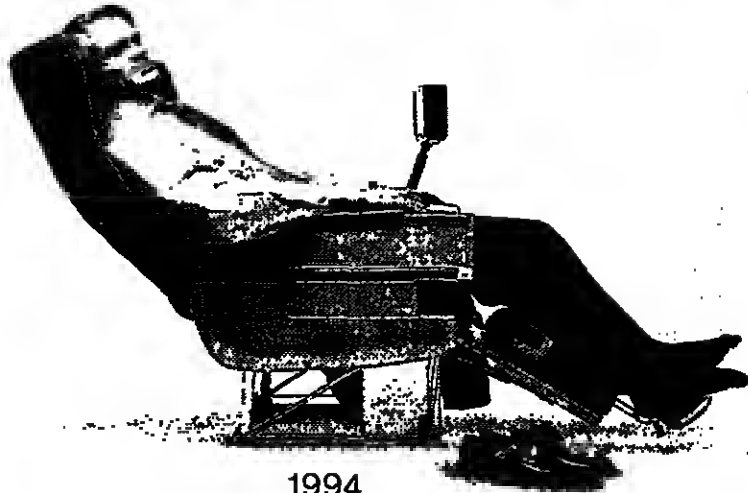
1985



1989



1990



1994

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## Ian Davidson



According to the conventional wisdom, elections to the European Parliament are not really about the European Parliament at all: they are a series of lukewarm national plebiscites, which have some relevance to national politics but not much to Europe. The voters know little about the Strasbourg assembly, and care rather less, fundamentally because the election of the European Parliament does not lead to the formation of a European government. A Euro-campaign is really just an extension of national politics.

## Bizarre British novelty

### The UK's Euro-campaign is unusual in focusing on European issues

was Mr Major, if you recall, who summed up the 253 pages of the treaty in the memorable words: "Game, set and match to Britain." The phrase implied a triumph, or at least a defiant, finality about that marathon. It now seems probable that the 1996 Inter-Governmental Conference (IGC) to revise Maastricht will be even more grueling than Maastricht.

### Major has put himself in a position that guarantees maximum conflict with EU partners

ting further and further out of step with its major partners. Mr Major is arguing for a fluid, amoeba-like Europe; but the Germans are pressing for a more integrated Europe, and it is they who will set the agenda, because they are now the leaders of the majority of member states. No doubt they will be rejoined by their traditional French allies, once the French have elected a new president and (with luck) resolved the schism over Europe inside the conservative coalition. But for the moment the Germans will call the tune.

The time they are calling is uncompromisingly integrationist. Karl Lamers, the foreign policy spokesman of the ruling Christian Democrat party, openly calls for the drafting of a European constitution to define what does what. British Euro-sceptics tend to pool-pool the Lamers line, on the grounds that he is an unrepre-

sentative Euro-federalist, and the people in the chancellor's office in Bonn explicitly disclaim any intention of pressing for a European constitution. But when you listen to what they say in detail, it's hard to see what else they mean.

I talked to a very senior official in Germany last week. "No," he said, "we don't want a constitution; we must just make improvements in the Maastricht treaty. But in 1996 we must try to divide the policy competences between the Community and the member states more precisely." The Germans are no doubt anxious not to set off the alarm bells in London; but this sounds like the beginnings of a federal constitution under another name.

In detail, the Germans want a much stronger European Parliament, and a strengthening of foreign policy co-operation. They will also press for much closer co-operation on police, justice and immigration policies, by transforming them from issues of inter-governmental co-operation to full European Union status.

Moreover, Chancellor Helmut Kohl remains unrepentantly committed to a single European currency, sooner or later, and now the head of the Bundesbank has called for closer political and monetary links between an inner core of the member states, as a precondition for any further enlargement to the east.

In the light of all that is known about the priorities of Germany and a majority of the other member states, it is baffling that John Major should deliberately have manoeuvred himself, in this Euro-election campaign, into a position which guarantees the maximum conflict with Britain's partners in the coming IGC.

"In 1996," says a very senior Brussels diplomat, "there are only four possible outcomes. We may have a new tight treaty; and the British will opt out of it. We may have a new loose treaty; and an inner core of states will go ahead without the British. We may have a multispeed treaty; and the British will opt for the slow lane. Or we may have a complete breakdown."

In other words, he is already discounting any possibility of Britain keeping up with the pace of integration. This may seem a pity; but at least we are having a debate about it, even in a European Parliament election campaign.

## THE FT INTERVIEW: Antonio Martino, Italy's foreign minister

## Sceptic with a hint of enthusiasm



Antonio Martino (in front of a poster of Silvio Berlusconi): 'In Italy I'm considered a Euro-sceptic'

It is a curious irony that the first European government to be headed by a media magnate should have an image problem.

But the month-old Italian government of Silvio Berlusconi is struggling to shrug off the negative international impact of containing five ministers from the neo-fascist MSI/National Alliance.

Much of the flak falls on the shoulders of Antonio Martino, the free-market economist and political novice who has taken over as foreign minister.

"We made a mistake in not paying sufficient attention to the foreign press [during the election campaign]," Mr Martino concedes.

Having just spent much of Monday fielding queries on hostile comments made against the MSI by Mr Jacques Delors, president of the EU Commission, and an Israeli junior minister, Mr Martino is remarkably sanguine.

He attributes the attacks on the neo-fascists to attempts by European socialists to score points in the run-up to this weekend's European elections. "We are in a pre-electoral atmosphere," he says. "After Monday, things should begin to quieten down."

Though feeling his way and distracted by having to convince Italy's international partners of the government's democratic credentials, Mr Martino clearly relishes the opportunity to put his ideas into practice. He is an economist trained in Chicago under Milton Friedman, who caught Mr Berlusconi's eye writing opinionated free market articles some 18 months ago. Right until the end of the campaign for the March general elections, he was Mr Berlusconi's economic adviser and looked set to be the next treasury minister.

Nevertheless, diplomacy runs in the blood. His father, Gaetano, was the Christian Democrat foreign minister who signed the articles of the Treaty of Rome, while his cousin, Ferdinando Salvo, is a career diplomat.

Mr Martino is the first Italian foreign minister since the Treaty of Rome to question the European ideal. It would be surprising if his forthright views do not shape new Italian policies towards the Union.

"In Italy I'm considered a Euro-sceptic; but in Britain I would probably be considered a Euro-enthusiast," he says of his membership of the Thatcher-inspired Bruges Group. A convinced Anglophile, married to an American, he champions a more pragmatic approach to the consolidation of the EU. "The Maastricht treaty is not a bible."

Mr Martino is also critical of the Euro-socialist thinking behind the social chapter. "It may be motivated by lofty ideals but it produces some perverse results." He attributes Italy's high unemployment directly to unnecessary rigidities in the labour market, although the hire and fire laws were intended to protect the workers.

Yet he is by no means anti-EU; rather he is deeply critical of the unquestioning pro-Europeanism of previous Italian governments. "Italy said yes to everything but then was not necessarily able to implement," he says, citing Italy's inability to comply with milk quotas.

He dislikes the *dirigiste* aspect of Brussels. Governments, he says, should be free to determine their own regulations to avoid the kind of bruising national arguments over the "Euro-sansage" or "convergence" of currencies.

"In the EU we have created institutions without strategies [for their use]... It's like buying a computer without knowing how to use it. First you must choose the software, then the hardware... If we believe in Europe we have to ask why."

Europe, he insists, must be demonstrably for the public good. He sees five elements of common benefit - the single market, a common currency, a common foreign policy, a common defence policy, and the need for a genuine court of appeal/judiciary to which citizens can resort.

He supports the single market but warns it must be able to make guarantees against protectionism among individual members. On the advantages of a common currency he is more sceptical.

"It - and it is a big if - I can have guarantees that the common currency will not be mis-

managed, then I'm in favour." The common currency would be beneficial, he claims, because it would reduce the cost of transactions, help stabilise international currency markets and be an alternative to the dollar, while also acting as a symbol of European unity.

"A common currency is desirable although it is not absolutely essential for the single market... It requires an indivisible solution - ie: it cannot be done step by step."

On a common European foreign policy, Mr Martino is wary of forming axes within Europe such as that between France and Germany. An axis means a return to "conventional diplomacy with favoured partners". To counter the latest moves by France and Germany towards tightening their co-operation, he is aware Italy might be tempted to make common cause with the UK and Spain.

The first test of Italy's Euro-diplomacy will be the forthcoming choice of a successor for Mr Delors. Instinctively Mr

Martino would prefer Sir Leon Brittan, the trade commissioner, or Mr Peter Sutherland, the Irish candidate and Gatt head. Such figures, or a compromise candidate, are needed to embody a new post-Maastricht approach to union. But the Italian government has yet to make up its mind.

Italy, Mr Martino says, should be more prepared to be more opinionated on a range of issues. "One should say exactly what one feels about policy. In this I admire Mrs Thatcher, even if she may have overdone it on occasions."

This underscores the desire of Mr Martino - and that of Mr Berlusconi - to raise Italy's international profile. One problem here is that Italy, despite its size and membership of Nato, has poorly equipped armed forces. Successive governments when looking for spending cuts always turned to the defence budget, he laments.

"The defence ministry now spends less than the regional government of Sicily," he observes. If Italy is to play a bigger international role, it must have the military means - "but I don't want to sound militaristic".

He is bitter at the way Italy has been left to play second fiddle over events in the neighbouring states of former Yugoslavia. Italy has been excluded from the contact group formed between the US, Russia and the EU. "We cannot be answerable for decisions to which we are not a party," he says.

Behind this treatment of Italy lies a complex debate over whether troops should be sent to ex-Yugoslavia. Mr Martino lays down four conditions for this to happen: a peace plan must be accepted by all interested parties; this peace plan must be backed by the United Nations; the UN must request Italian troops; and the troops should then be under Nato command.

In all his answers, Mr Martino behaves as if he is master in his own house. "I think Berlusconi shares some of my Euro-scepticism. He trusts me and expects me to take care of this area of policy. As a businessman he is accustomed to the idea of delegating responsibility."

Robert Graham

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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### Lower yen rate right for growth

From Mr John Hemingway.  
Sir, Recent portfolio flows have highlighted the Japanese savings surplus and the savings deficit elsewhere in the world. If rising long bond yields are not to jeopardise western growth, Japanese capital outflows need to be resuscitated.

Lower Japanese interest rates would have this effect, particularly if they also gave rise to the perception that the yen had peaked. Lower rates would not necessarily be inflationary because some indices show prices are still falling in Japan.

Lower rates could also re-liquify the banking system in the same way that they did in the US in the early 1990s. Together with a weaker currency, lower interest rates would stimulate growth and demand for US exports.

Why, then, doesn't Japan cut interest rates and the US emulate demands for managed trade?

John Hemingway,  
PDM,  
Triton Court,  
Finsbury Square,  
London EC2A 1PD

### Short list of high pay-outs

From Mr M J Hart.  
Sir, Nothing emphasises more the misunderstanding by Stephen Dorrell, financial secretary to the Treasury, of the financing of publicly quoted companies than his weekend statement that "it may be right for Glaxo and ICI to distribute as they do but it isn't right for an expanding high-tech firm with a capitalisation of £50m".

I have been in the City a long time, but I cannot recall too many expanding high-tech firms noted for their high pay-outs.

Perhaps Mr Dorrell could produce a list. It would be a very short one.  
M J Hart,  
Chairman,  
Foreign & Colonial  
Management,  
Exchange House,  
Princes Street,  
London EC2A 2NY

### UK needs restructured welfare system, not lower benefit levels

From Mr Richard Thomas.  
Sir, Joe Rogaly ("Hand-out, not hand-out", June 7) is right to say that "any promise of full employment would be hollow without some reform of the welfare system". He is wrong to conclude that this means setting for less welfare if we want more people in jobs.

A Commission on Social Justice report to be published next week shows it is the structure and administration of benefits,

rather than their level, which affects employment. And the existing benefits system in the UK needs reform in order to make work pay. This does not imply promoting a downwards competition between wages and benefits at the bottom of the labour market. It does, however, imply tackling the outdated notions of a "family wage" inherent in the current benefits structure and easing the transition from out-of-work

to in-work benefits.  
There is not a sterile choice between more or less welfare and more or less labour market regulation. The real challenge is to shape regulation and welfare to fit today's world.  
Richard Thomas,  
research fellow,  
Commission on Social Justice,  
Institute for Public Policy Research,  
30-32 Southampton Street,  
London WC2E 7RA

### Tax and unemployment

From Mr John A Chudley.  
Sir, With reference to Samuel Brittan's excellent, if slightly technical, article, (Economic Viewpoint, June 2), why not return to an old idea of "negative income tax" with unemployment support equal to personal allowances and permitted earnings equal to the earned income allowance?

The latter could be increased in times of high activity, taking some of the pressure off wage levels and increasing the "pricing in" premium. It could then be correspondingly reduced when recession threatens.

The whole could be simply administered (perhaps too simply to suit the bureaucrats) and would at least partly relate costs to taxation revenue.  
John A Chudley,  
Tropicos 4,  
Napfion 21100,  
Greece

From Mr William Hodgson.  
Sir, Samuel Brittan asserts that "the proximate explanation for this hard core [of structural unemployment] is that pay and related costs make workers unprofitable to employ". Actually, all that has happened is that more and more women have sought to join the working population, particularly since 1970.

One reason is the high level of average and marginal taxation and national insurance suffered by those in "low paid jobs". Hence, many of the hard core of unemployed collect benefit but also work for cash. The "discussion" of full employment could usefully move on from monetary policy, labour market details and social security to changes in tax thresholds, including the pernicious national insurance contribution.  
William Hodgson,  
Tumblecroft, Upper Marden,  
Chichester, West Sussex

### Too late to catch news

From Mr Günther B Pamberg.  
Sir, As someone reared on the banal journalistic diet, with scarce news and abundant comment, highlighted in "A dull day in Germany II..." (June 5/6), I know James Morgan missed the obvious reason: German journalists seem to knock off work at the latest by 5pm and late-breaking stories just do not get into the next morning's newspaper.

I have to get my late German news out of the Financial Times and International Herald Tribune. German journalists also seem to dislike leg-work to dig out the real story behind the story and prefer to sit behind their desks to compose the abundant comment.  
Günther Pamberg,  
51, Chemin de la Gare,  
Case postale 284,  
CH-2800 Porrentruy,  
Switzerland

### Water company gearing should be questioned

From Y Kovach.

Sir, Lex concludes (May 30) that the ability of water companies to meet the efficiency targets of Ofwat, the regulator, is what matters to shareholders. Not for him to inquire why an industry with the highest quality of earnings is so lowly geared? The combination of an indispensable product and captive customers cries out for the maximum of cheap debt finance and the minimum of expensive equity. Instead, we have the alchemy of water into gold, a regulated high-reward, albeit risk-free, industry.

Today's customers are being doubly milked to provide shareholders with a generous dividend pay-out and, through substantial retained earnings, much of the equity for projects to improve water quality and the environment for the next generation of customers.

Ofwat should derail this low risk/high reward gravy train by calculating its "inflation minus x per cent" water charge formula on the assumption that most of the ring-fenced capital employed is financed with index-linked bonds. In order to minimise the

need for interest cover, Ofwat should state the obvious - monopoly water suppliers do not go bankrupt and hence will always be allowed to meet their debt payments. Equity's role would be diminished to that of ensuring effective management. Ofwat would then be able to fine tune the water charge formula so as handsomely to reward shareholders at little cost to customers.  
Y Kovach,  
38 Lebanon Park,  
Twickenham,  
Middlesex TW1 3DG

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## FINANCIAL TIMES

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Wednesday June 8 1994

## Ways to cure unemployment

In the member states of the Organisation for Economic Co-operation and Development unemployment stands at 35m, 8% per cent of the labour force. This is the gravest economic failure and social problem they confront. That is why the OECD secretariat was asked to prepare its study of employment and unemployment. It is also why careful attention needs to be paid both to its analysis and to its largely persuasive recommendations.

Inevitably, the subtleties are lost in the fevered British political debate. All parties can claim some support from the OECD, although the Conservative party's deregulatory approach wins the battle on points. The OECD insists, for example, that statutory minimum wages "often end up damaging employment opportunities for unskilled labour". Similarly, it warns that employment protection legislation "can make employers more reluctant to hire new workers". Yet, faithfully even-handed, it also points out that minimum wages can be varied, by age or region, and that "employment security can encourage investment in on-the-job training".

Such selection can be irritating. For this report shows not only how far performance diverges, but that virtually all countries fail in at least one respect, while remedies must be multi-dimensional, because the problem is: No single bullet will cure the unemployment dragon.

Performance varies dramatically even within the European Union. In 1993, the youth unemployment rate was only 4.9 per cent in Germany, but 24.6 per cent in France. Female unemployment stood at 6.1 per cent in Germany and 6.1 per cent in the UK, but at 23.9 per cent in Spain. The long-term unemployed were 39.0 per cent of the total in Belgium, but only 27.0 per cent in Denmark.

## Markedly worse

For all that, overall EU employment performance was markedly worse than in the US, or Japan. EU-wide youth unemployment stood at 20.6 per cent, for example, as against 13.3 per cent in the US and 6.1 per cent in Japan. The share of long-term unemployment stood at 42.2 per cent of the total in the EU, but 11.2 per cent in the US. Employment has hardly grown in the EU since 1990, while it is up more than 80 per cent in North America.

Yet all is not well in the US.

## How not to pick a Euro-leader

Europe owes a great deal to Franco-German co-operation. Without the driving force supplied by Bonn and Paris, the post-war community of European states would never have flourished. Wisdom displayed by the two countries' successive leaders has benefited the entire continent. One striking example was President François Mitterrand's support for deployment of medium-range nuclear missiles in Germany a decade ago. This strengthened Chancellor Helmut Kohl's policies at a crucial time. Mr Mitterrand thus made an important contribution to the eventual end of the cold war, paving the way for German unification.

In spite of these successes, Bonn and Paris are not immune to mistakes. Mr Mitterrand and Mr Kohl are making one now in their efforts to steer the presidency of the European Commission towards Mr Jean-Luc Dehaene, the Belgian prime minister. Having decided on their candidate, France and Germany appear to be trying to impose him on the rest of the European Union, in spite of reservations by countries such as Britain and Italy. The objective of the campaign is misguided. Additionally, the way it is being carried out runs counter to the principles on which the EU should be doing business.

## Vital role

The successor to Mr Jacques Delors will play a vital role in shaping the European Union during the next five years. As it tries to improve members' economic performance and deepen and widen existing integration, the Commission needs to be made more efficient, more cohesive and more powerful.

The right candidate will require vision and ideas combined with administrative skills and tough-minded negotiating ability. Mr Dehaene appears to have won support from Mr Kohl, in particular, on the grounds of his Christian Democrat party membership, his backing for political and monetary union, and his adroit handling of the 1993 European summit.

Real wages of low-paid workers fell by more than 1 per cent a year in the 1980s, while wage differentials have risen considerably. The US then has a real income problem, just as the EU has an unemployment problem. Since the aims must be higher employment, lower unemployment and higher real wages, this seems to create a nasty dilemma. Is a growing army of the working poor a necessary result of successful policies to promote employment?

## Growing gap

The OECD is not that pessimistic. Naturally and rightly, it rejects protectionism or policies to slow technological change. It insists, instead, that "the single most important cause of rising unemployment, as well as a growing incidence of low-wage jobs, is a growing gap between the need for OECD economies to adapt and innovate and their capacity and even will to do so".

Its array of policy recommendations include macroeconomic stability, faster diffusion of technological know-how, increased flexibility of working time, nurturing entrepreneurship, making wages and labour costs more adaptable to market conditions, reforming employment security provisions, making labour market policies more proactive, improving skills and competences and, most important of all, reforming benefit and tax systems, to ensure that social objectives are achieved in ways that impinge less on efficient functioning of labour markets.

Every country should examine all these policies, to improve the trade-off between high employment, on the one hand, and rising and reasonably equal real incomes, on the other. Yet dilemmas remain. Education and training are long-term policies. In the meantime, jobs offered to the unemployed must be profitable for employers, and remunerative to employees.

There are two possible strategies: restricting the availability of social benefits or shifting them sharply towards job-promotion. The former is ruthless, the latter expensive. A third possibility consists of leaving things in the EU largely as they now are. But if EU members remain determined to preserve their current welfare states and labour market protection, they may find unemployment rising still further. In the long term, that could well be the most socially damaging choice of all.

in Brussels. However important these attributes are, they are not sufficient to guarantee him the job. Mr Dehaene is already discharging with tenacity the difficult task of holding together his fractious Belgian coalition. Since there are three other contenders for the Commission presidency, all with relevant qualities which Mr Dehaene lacks, Europe would probably be best served if the prime minister were to remain at his post.

## European integrationist

Of the others in the running, Mr Ruud Lubbers, the Dutch prime minister, has strong credentials as an Atlanticist and as a European integrationist. His economic policy accomplishments during 12 years in government are impressive. The Netherlands is one of the few countries close to fulfilling the Maastricht criteria for economic and monetary union.

Sir Leon Brittan, the UK's senior EU commissioner, has a sceptical mind, but is also a strong believer in the benefits of European union. His reputation has been improved by his contribution to concluding the Uruguay Round. Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, and a former Brussels competition commissioner, is not a front runner in the race. But, like Mr Lubbers and Sir Leon, he has a proven international track record.

EU voters are preparing to go to the polls for the parliament elections on June 9 and 12. Austrian voters look nervous about the EU ahead of this weekend's referendum. Yet the horse-trading among governments about the Union's new chief executive is taking place in secret. If the next president is to give the Union the independent-minded, persuasive leadership it needs, he or she needs to be the right person chosen in the right way. That requires national leaders to state openly what they consider to be the qualities required for the job and then for candidates to come forward publicly, so that their merits can be examined and discussed.

For bankers who lend money to large companies in the UK, this has been an unsettling year. Six months ago it appeared that the business, which was hardly worth the candle by the end of the 1980s, had been revived. But banks now face the return of hard times. "We have managed to transform very thin returns, but we are beginning to fall back over the edge," says one banker.

The pressures have yet to hit published profits. Operating profits in the Royal Bank of Scotland's corporate and institutional banking division were £22m in the six months to March, compared with £58m in the same period a year before, while National Westminster Bank's corporate and investment banking arm, NetWest Markets, doubled profits last year. Yet this earnings level is under pressure as banks compete for business.

The most obvious evidence is in the price of loans, which has fallen sharply this year. Large companies which had to pay interest of 0.5 per cent (above wholesale interest rates) on loans a year ago are now being charged closer to 0.3 per cent. "In the last six months, banks have given up half the lending gains they made in the past six years," says Mr Roger Byatt, deputy chief executive of NatWest Markets.

Banks have found a distinct lack of enthusiasm for borrowing among large companies, whose ability to tap capital markets more cheaply means they use bank loans mainly as standby finance, similar to overdraft facilities for individuals.

Furthermore, other services that banks have relied on heavily in the past two years to compensate for low returns from lending - such as foreign exchange contracts and financial derivatives - are under pressure. Less volatility in European exchange and interest rates means banks are selling fewer products and at lower margins.

The recognition that income from lending to large companies will probably never recover to levels where it gives an acceptable return on capital has galvanised banks. Following the example of other banks, Barclays' new chief executive, Mr Martin Taylor, has just reorganised its corporate banking services - ranging from lending to cash management and equity underwriting - into a single group.

Mr Graham Pimlott, the Barclays executive who recently took charge of this group, says that although UK banks have tried in the past few years to improve corporate banking profits, they have not gone far enough. "Lending as a profitable business has been in decline for many years. US banks responded to that in the 1980s, and it is slightly surprising that it took us 10

## Better balance for loan arrangers

Falling profits from corporate lending mean UK banks are seeking broader customer relationships, says John Gapper



more years to respond to it," he says.

Lending profitability deteriorated sharply in the late 1980s, as competition among strongly-capitalised banks reached a peak. One banker estimates that banks need to charge about 1.4 per cent interest on loans to large companies to make adequate returns on capital.

The fall in margins in the 1980s compounded other problems faced by British banks in dealing with large companies. First, in contrast to continental European banks, commercial and investment banking were divided. As large companies raised more funds on capital markets, a growing proportion of their business passed from commercial banks to investment banks.

A second problem was that their technology did not allow most banks to calculate the total profits they made from each customer, the risks they ran, and the costs they incurred. Many wanted to lend as much as possible, even at low margins, to cover fixed costs. This drew them into making loans to companies with which they did not other business, on terms which did

not earn a sufficient return on capital.

These risks were exposed when many large companies, such as Olympia & York, the Canadian property group, collapsed or had to be refinanced in the early 1990s.

The combination of large losses, and new capital requirements imposed by the Basel-based committee of international bank supervisors, led many banks to reshape their business with large companies. Mr Byatt says this process has been so effective in NatWest's case that it has raised its earnings from large companies to three times the level of the late 1980s.

Banks have been reforming their approach to large companies in several ways:

- They have analysed the returns on capital of each relationship with a large company - including services such as cash handling and lending. This has shown that lending alone is no longer profitable enough. "You have to gear lending with other forms of income to make an adequate return on capital," says Mr David Harrison, head of corporate banking at Lloyds Bank.

● They have ended relationships with companies which want only to borrow money. NatWest Markets has reduced its customer base from a peak of 2,400 to about 900.

Banks have played on the greater vulnerability of some recession-hit customers by pointing out that they are more inclined to rescue those loyal in good times. "Banks find it harder to support clients who fall on hard times if they were operating purely in a transactional way, and trying to squeeze every last basis point from their bankers," says Mr Byatt.

● They have raised lending profits by adding higher-margin loans as old ones have expired. They have been helped by the withdrawal of many Japanese banks from the London market because of difficulties in their domestic markets in 1990. But the strongest thrust has been to try to improve profits by selling more products to companies, using the lending relationship as an introduction and lever. Mr Iain Robertson, head of corporate and institutional banking for Royal Bank, says

David Goodhart argues UK interpretations of European labour laws are unfair and misleading

## Social chapter misread

European labour law is the issue that has most sharply divided the two main parties in the UK's European election. But in so doing, it has become a focus of rhetorical exaggeration and straightforward misunderstanding on both sides.

In the course of the campaign, the social chapter, a voting mechanism which makes it easier for the European Union to pass some types of employment legislation, has been routinely and wrongly described in the UK as ushering in a 35-hour week and a minimum wage.

Last week Mr John Major, the prime minister, attributed France's rising unemployment to its acceptance of the social chapter and Britain's falling unemployment to its rejection of it. This assertion belied the fact that not a single piece of European employment legislation has been passed under the terms of the social chapter.

The argument over workers' rights and conditions does overlap with genuine domestic policy differences on labour market regulation. But neither the existing framework of European employment law, nor proposed extensions to it, can bear the weight of acclaim or disap-

proval heaped upon it by, respectively, the Labour and Conservative parties.

There is "much nonsense" talked in the UK about both the volume and the nature of social legislation at a European level, says Mr Padraig Flynn, social affairs commissioner in Brussels. More than 90 per cent of employment legislation, and the costs associated with it, is determined by national governments and not by Brussels. The three main areas where Europe has an impact - health and safety, equality for men and women, and labour mobility - are all relatively uncontroversial.

Further, the din of hustings rhetoric has obscured the fact that the scope of Europe's social ambitions is going through a subtle mutation or "a period of creative confusion".

In a recent speech, Mr Flynn said Europe's social dimension had established a critical mass and now required less legislation. "It is no longer possible, or productive, to focus too narrowly on specific questions such as labour law," he added. "The scepticism of the UK govern-

ment has had some effect in this debate and there is growing interest in labour market deregulation throughout Europe. But this does not mean that the social dimension is dead, or that Britain has "won the argument".

Even after some deregulation, most EU countries will have more regulated labour markets than the UK. Germany and Spain now see Europe-wide minimum standards - on, for example, part-time worker rights - as a useful balance to domestic deregulation.

Even in the UK, clashes over labour law seem set to continue at least for a couple of years. Though the UK won an opt-out from future social chapter legislation during the Maastricht treaty negotiations, the rump of 1990s legislation containing into force now means that British workers are acquiring new rights in maternity leave, working hours and part-time work.

These measures amount to a qualification, not a negation, of the deregulatory policies of the Conservative government. For instance,

the abolition of minimum wage protection in the UK.

The above regulations, and the current batch of directives on matters such as parental leave for children, represent the last gasp of 1980s social Europe. Mr Flynn suggests the future will be more modest.

There will be more emphasis on implementing existing legislation (Greece has implemented virtually no health and safety legislation), and more sensitivity towards subsidiarity in the social field where, many argue, decisions should remain at national level.

In the longer run there is likely to be more harmonisation of employment standards and even pay rates in Europe, but this will probably be the result of economic integration, not directives. It is also likely to involve convergence between British deregulation and continental regulation. As Sir Adrian Cadbury, chairman of the Cadbury inquiry into corporate governance, said last week, talking about the company of the future, Britain will move towards Europe in giving employees more rights, while Europe will move towards Britain by doing the same for shareholders.

## Fight to the Finnish?

■ You can tell a bully - they are the ones who always pick fights with much smaller people. Vladimir Zhirinovskiy, the flamboyant Russian nationalist politician, has selected a female Finnish journalist, Jutta Zillicus, for his latest punch-up. She apparently queried his mental fortitude in a recent article; now he's suing her.

The man from Ivantheferriblegrad is little-loved in Finland. He says the Finns can have eastern Karelia back - they lost it to Russia in the Winter war of 1939-40 - but the price will be that all Finland is reunited with Russia. Zhirinovskiy is also suing a Helsinki theatre, currently running a farce entitled Mein Kampf by Hungarian dramatist George Tabori. Zhirinovskiy's lawyer claims the central character - Herr Schickelgruber himself - spouts words taken from Zhirinovskiy's speeches.

Damages of around \$2.5m are being sought. But Zhirinovskiy has shot himself in the foot again in Finland, at least, libel damages are usually nominal.

## They toil not

■ So, fresh from a relaxing sojourn at his Normandy holiday home, Peter Lilley has agreed to reappear

in support of Britain's Tory government in its European election campaign.

It seems the secretary of state for social security will now show up in Bradford, bolstering the hopeless cause of the Conservative candidate in that town's by-election. A hastily arranged programme - to persuade us his absence in no way reflected his disdain for the European Union - will also see Lilley visiting a factory in Leeds, as well as on walkabout in Huddersfield.

Tory central office is deeply embarrassed at Euro-sceptic Lilley's preference for a relaxing holiday over supporting the prime minister on the stump. Not everyone shares that chagrin. "We are better off without him," says one of Major's unhappy band of pro-European ministers.

## Winds of change

■ John Major, watch out - The Bloke Next Door is after your job. Ken Clarke has sniffed the wind and the bouquet is sweet. What else could have induced the chancellor to agree to being profiled in a BBC television programme so entitled, scheduled to be broadcast on June 19?

Apparently, viewers will learn that beneath the half-fellow-well-met exterior throbs the heart of a nasty piece of work. "Behind the plump exterior there's a ruthless streak... Ken's not at all

## OBSERVER



'Let's face it, our relationship has been multispeed for years'

the man he appears," says Lord Parkinson. That's all we need - another Tory party leader who is not all he or she appears to be.

## Alchemy rules

■ Good old Sir Denis Henderson. Who else but the chairman of ICI dare lecture a group of fat cat bankers that "only the successful, youthful merchant bankers seem to benefit from the excessive personal rewards which are so hard to justify by the normal standards of industrial remuneration"? He should know - as chairman

of Barclays Bank's remuneration committee he presumably gave the thumbs up to the £1.4m paid to BZW chief executive David Band, 51, Barclays' highest paid director last year.

## Blair's flair

■ Labour peers do not feel the need to keep quiet about whether or not they see young Tony Blair as the new leader of the UK's Labour party.

Lord McIntosh of Haringey, spokesman on home affairs in the Lords, yesterday repudiated a suggestion that Labour was "soft" on squatters. "If I were to suggest we were, Tony Blair would have me shot at dawn," he said.

## Party time

■ Rarely has there been a finer array of parties to choose from than in Thursday's UK version of the elections to the European Parliament. Fifty only 50 per cent of Britons apparently know what the parliament is.

Never mind. Besides all the obvious dull worthies, Observer fancies the chances of the Rainbow Connection Out-Say-Now party, though the choice of four splinter versions of the ubiquitous 'Having Loony' faction might squeeze a vote here or there.

Fervent athletes might find a common front with the 'European

his bank makes clear to companies merely wanting to borrow that "we intend to work with them in the longer-term to ensure we build a profitable relationship".

It is difficult for banks to do more than suggest that they deserve a slice of more attractive business in return for a loan. There is strong competition for the most profitable forms of wholesale banking. Companies can insist on banks making loans before they consider buying other services, such as foreign exchange contracts.

Moreover, not all other forms of banking activity are so profitable that they make up for depressed lending margins. Mr Harrison of Lloyds argues activities such as cheque clearing and cash handling are a valuable addition to lending. But others argue such transactions are hardly more profitable than lending.

Probably the greatest prize for commercial banks would be to persuade their blue-chip clients to use them as investment banks as well as commercial banks. If such borrowers sought corporate finance advice or asked their banks to underwrite equity issues, the banks would have captured the most profitable businesses from investment banks.

This is the rationale for National Westminster bringing its corporate and investment banking operations together in NatWest Markets two years ago, and for Mr Pimlott taking control of both corporate lending and merchant banking within Barclays. Yet banks face difficulties in persuading UK companies to accept advice, loans and underwriting from a single source. Many companies are doubtful about the quality and independence of the advice they might receive.

Even Mr Pimlott is cautious about the chances of short-term success, arguing that it would be counter-productive to try to pressure companies to use the whole range of products and services now under his remit. "In my experience, customers do not like people arriving and trying to force them to use one service when they are quite happy using another," he says.

Yet the pressures on banks such as Barclays and NatWest to induce companies to buy such products will grow if they cannot sustain the recovery in profits of the past two years. Mr Byatt of NatWest says the bank was surprised by the rapidity with which it improved earnings after integrating its lending and investment banking activities. But he admits that it will be hard to maintain the momentum. As loan margins deteriorate and profits are squeezed, the hard times of the late 1980s no longer seem so far away.



## BA looks for a bigger role in Chinese air transport industry

By Paul Betts, Aerospace  
Correspondent, in London

British Airways is stepping up its role in the modernisation of the Chinese air transport industry through joint ventures and partnerships with regional carriers.

BA is already co-operating with China Southern, the Guangzhou-based airline, and is in talks with Shanghai-based China Eastern Airlines, Mr David Holmes, BA's director of government and international affairs, said yesterday.

Like other international carriers, BA now sees more promising long-term opportunities in China than in Russia, where its project to start a new airline called Air Russia has been placed on hold indefinitely.

This week's crash of a China Northeast Airlines' Russian-built Tupolev Tu-154, in which 160 people died, has added to the

urgency of overhauling the country's aviation system. It was China's worst air disaster.

But, in contrast to Russia's instability, China offers an administrative framework for business, Mr Holmes said.

The Civil Aviation Administration of China and Chinese airlines have become increasingly conscious of their technical weakness and the urgent need to improve safety, punctuality and efficiency standards in the face of explosive domestic air traffic growth, which is averaging 20 per cent a year.

China is keen to commercialise its state-controlled airline industry and is proposing to sell stakes to foreign investors in its 33 regional carriers. It has suggested listing some of the bigger carriers on the New York Stock Exchange in an effort to secure outside financing.

BA is not pushing to take a stake in one or more Chinese airlines but its longer-term ambition is to negotiate a marketing agreement with a carrier such as China Eastern to co-ordinate services at Beijing airport.

BA, however, recently met Chinese aviation officials in the UK to discuss ways forward for Chinese airline privatisation.

BA has also entered a joint engineering venture with a fellow Boeing operator, China Southern, and has sold this company computer services. The British airline sees pilot training as another area of possible co-operation with Chinese carriers.

BA, which flies twice a week from London to Beijing and is keen to double its weekly services, is anxious to establish a stronger foothold in China at a time when some of its main inter-

national competitors are intensifying co-operation with Chinese airlines.

Lufthansa of Germany already operates six flights a week to Beijing and is involved in a large aircraft maintenance centre in the Chinese capital.

Singapore Airlines has earmarked China as one of its three main growth areas for the next decade together with India and Vietnam. It has taken a 40 per cent stake in the company handling ground services at Beijing airport and another 40 per cent stake in Beijing airport's inflight kitchen group.

Singapore Airlines' engineering subsidiary has also invested in a 10 per cent stake in the Xiamen joint engineering venture which includes Cathay Pacific and Japan Air Lines. Its leasing company has leased a Boeing 767 to China Southern.

## S Korean police put on terrorist alert

By John Burton in Seoul

South Korean police forces yesterday were placed on emergency alert to guard against possible terrorist attacks in connection with the North Korean nuclear dispute.

The new alert came as the International Atomic Energy Agency said yesterday the truth may never be known about the intention of North Korea's nuclear programme, and stressed that its inspectors must have access to nuclear waste sites.

Some analysts believe the most likely response by North Korea to threatened UN sanctions could be terrorist activity in South Korea and Japan, rather than a conventional military attack.

The police are increasing surveillance of air terminals and

ports to prevent infiltration by North Korean saboteurs and spies, while bolstering security at government buildings and foreign embassies in Seoul.

South Korean president Kim Young-sam today will convene the first meeting of the national security council - which consists of senior government ministers - since he took office 16 months ago. The council will discuss the military situation on the Korean peninsula and preparations for a possible conflict.

The government will also seek support for sanctions from the main opposition Democratic party, which fears that punitive measures against the North could trigger a war.

Mr Kim yesterday warned that North Korea faces international isolation and eventual destruc-

tion if it persists in developing nuclear weapons.

Senior US and Japanese officials will meet Mr Han Sung-joo, South Korean foreign minister, on Saturday in Seoul to discuss co-ordinated actions on implementing proposed UN sanctions against the North.

The visiting officials include Mr Koji Kakizawa, Japanese foreign minister, and Mr Peter Tarnoff, US undersecretary of state for political affairs.

The UN Security Council is unlikely to consider a sanctions resolution until next week at the earliest. The US is still consulting with other permanent members of the Security Council and no draft resolution has yet been circulated or distributed.

The US, Japan and South Korea support the immediate

introduction of limited sanctions that would gradually escalate in their severity.

But in an effort to win Chinese support they may propose an interim UN resolution instead that gives North Korea a final deadline to open its nuclear facilities to full international inspections and avoid sanctions.

Mr Han, who has been holding consultations at the UN, expressed confidence that China would eventually support some form of sanctions if North Korea continued to refuse inspections.

But North Korea is also biding for Chinese support. General Choe Gwang, the chief of the general staff of the North Korean people's army, is holding talks with his Chinese counterparts during a week-long visit to Beijing that began on Monday.

## Leading UK actuarial firm in discussions over US 'alliance'

By Norma Cohen,  
Investments Correspondent

R Watson and Sons, Britain's leading actuarial consulting firm, is in talks about "an alliance" with US-based benefit consultants Wyatt and Co in a bid to strengthen Watson's service to its increasingly multinational clientele.

A spokesman for Watson yesterday confirmed that discussions are going on but said "they relate to an alliance, not to a merger or a takeover."

Senior partners are discussing what form the alliance should take and a formal announcement is expected next week.

The move reflects the increasingly international nature of leading UK clients which are acquiring or being acquired by overseas companies. "Increasingly businesses are multi-national and they want to manage their employee liabilities from the core," said one senior actuary involved in the talks. Also, clients are seeking other benefit consultancy services, such as the design of remuneration packages, which go beyond Watson's pension fund consulting expertise.

An outright acquisition of Watson, valued by industry sources at \$50m to \$60m, could make millionaires out of several of its 94 partners. However, industry sources said that some of Watson's most senior partners, while anxious to broaden the firm's international consulting capacity, want to maintain its independence. "Several of them have been going around saying 'Over my dead body,'" said one actuary familiar with the talks.

Watson becomes the third - and the largest - of the UK actuarial consulting firms to seek a link with a large US company in the past year. Noble Lowndes was acquired by insurance brokers Sedgwick late last year while US-based insurance brokers Alexander and Alexander acquired Clay and Partners.

Wyatt and Co, which is organised as a Delaware-based company whose shares are owned by its 3,700 employees, has a leading presence in the US. It specialises not only in pension consulting but in a broad range of employee benefit and pay packages. It also has a leading market share in the Australian, Hong Kong and Japanese markets. However, it has few blue chip UK clients.

Watson has a commanding presence in the UK where it acts as actuarial consultant to 40 of the 100 top pension schemes.

Continued from Page 1

follow suit. The governments of Finland, Norway and Sweden have all watched the crumbling option poll lead of the pro-European Union campaign in Austria with a mounting sense of alarm.

With the opposition to the EU holding a solid lead in the opinion polls in Sweden and reaching 56 per cent - the highest level this year - in Norway this week, prime minister Carl Bildt's right-centre coalition in Stockholm and Mrs Gro Harlem Brundtland's minority Labour government in Oslo badly need an Austrian Yes.

In Finland, polls suggest most voters are in favour of joining the EU. But prime minister Esko Aho's centre-conservative coalition is troubled by an internal EU-related row.

## EU faces snub from Austrians

Continued from Page 1

follow suit. The governments of Finland, Norway and Sweden have all watched the crumbling option poll lead of the pro-European Union campaign in Austria with a mounting sense of alarm.

With the opposition to the EU holding a solid lead in the opinion polls in Sweden and reaching 56 per cent - the highest level this year - in Norway this week, prime minister Carl Bildt's right-centre coalition in Stockholm and Mrs Gro Harlem Brundtland's minority Labour government in Oslo badly need an Austrian Yes.

In Finland, polls suggest most voters are in favour of joining the EU. But prime minister Esko Aho's centre-conservative coalition is troubled by an internal EU-related row.

### THE LEX COLUMN

## Mobile market

Mr Gerry Whent, Vodafone's chief executive, was typically gung-ho at yesterday's annual results. Not only did he predict that Vodafone's revenues per subscriber would hold at last year's level of \$66, despite new rivals in the shape of Orange and Mercury One-2-One, he even forecast that competitors would raise their prices to near the level provided by Vodafone's "umbrella".

If Orange and One-2-One do indeed shelter under Vodafone's umbrella rather than dragging it into a price war, the company's premium rating would be more than justified. But it would be wrong to take Mr Whent's forecasts at face value. They are best regarded as attempts to lure the new players into a cosy oligopoly rather than predictions.

If anybody can pull off this feat, Mr Whent is probably the man. But the dynamics of the new tetrapoly will be harder to control than that of the old duopoly. When Orange and One-2-One attain nationwide coverage in two or so years, their imperative will be to fill their networks up. It is hard to see that being achieved without large price cuts.

Meanwhile, Vodafone's international strategy is set to move up a gear. It wants to increase its stakes in overseas licences, turning them from investments into associates and eventually subsidiaries. Greater control would help Vodafone add value to its investments, some of which have not performed well. The group is also likely to bid higher prices for new licences. That makes sense given that Vodafone lost the Italian licence through too low a bid. The more aggressive approach should enable Mr Whent to meet his expansion targets. But it will not come cheap.

### Anglian Water

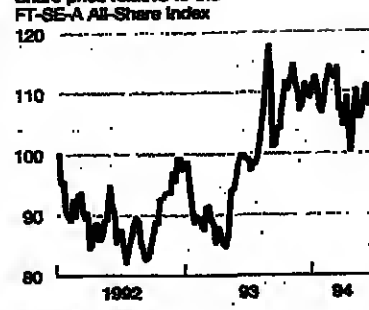
It is staggering that nearly five years after privatisation Anglian Water can cut one-fifth jobs from its utility business. Studies conducted by Ofwat, the industry regulator, do not show Anglian to be especially inefficient. Yesterday's \$60m restructuring charge therefore hints at what might be achieved elsewhere. The promised \$20m annual saving amounts to around 7 per cent of Anglian's operating costs in water and sewerage. On that basis, it looks well placed to beat all but the most onerous efficiency targets set by the regulator for the second half of the decade.

Still, it is curious that Anglian

FT-SE Index: 3004.8 (-4.6)

### Vodafone

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphix

has only just begun. It is far too early to worry about over-heating.

Yet rising output gives the Bundesbank even less excuse to ignore the explosion in M3 money supply and cut official rates again. Nor, now that the dollar appears to have stabilised, is there pressure emanating from the exchange markets. Indeed the D-Mark has also recently fallen slightly against European currencies as bond investors have sought to exploit yield differentials with other markets.

October's election and the prospect of tax increases next year are likely to keep consumption muted. There is a risk that high long-term interest rates will dampen the recovery too. That risk will be greater if money is sucked back into the US bond market once the Federal Reserve stops tightening. Then Europe will be left wondering how to cope with its own turn in rates.

### Alexander & Alexander

Alexander & Alexander's shareholders must hope that the involvement of a well-informed investor like AIG marks the turn. The insurance brokers' shares are trading lower than at any time since the late 1970s. AIG's \$200m investment in convertible stock should allow A&A to buy reinsurance to limit its underwriting losses. Financial flexibility should also help attract a credible chief executive. But the performance of the shares thereafter depends on management's ability to get to grips with operational problems. Willis Coroon's last results were a reminder that conditions in US retail brokerage are unhelpful. Unlike AIG, ordinary shareholders do not have the benefit of a preferential 8 per cent yield for comfort.

### National Grid

The regional electricity companies are going to find it hard not to give the green light for a flotation of the National Grid. Yesterday's 15 per cent rise in the Grid's dividend seems designed to maintain the pressure. It further highlights the value of the 'reco's' stakes in the Grid, which could be worth \$1bn as a stand-alone entity. The 'reco's' share prices responded accordingly, with their combined market capitalisation rising by over \$100m. But the further share prices rise in anticipation of a flotation, the more the 'reco's' are boxed in. They presumably know that a decision not to press ahead would leave investors disappointed and hit their share prices.

**FT WEATHER GUIDE**

**Europe today**

Germany, eastern France, Poland and the Balkans will be sunny and quite warm. Meanwhile, much cooler air will penetrate into western Europe resulting in thundery rain over a broad area from the Netherlands to southern France. Scandinavia will have sun and showers, while Scotland and northern Ireland will see some light rain. The Mediterranean area will stay settled and southern Spain will be rather warm. Northerly winds will make Greece a little cooler. A frontal zone over Turkey, forming the boundary between hot air over the Middle East and cooler air in Greece, will produce thundery rain.

**Five-day forecast**

All western Europe will be cooler, resulting in unseasonably low temperatures by the weekend. The northern Mediterranean will become unsettled over the weekend. Eastern Europe will be very warm at first, followed by much cooler air.

**TODAY'S TEMPERATURES**

Location	Maximum	Minimum	Weather
Abu Dhabi	39	29	cloudy
Aden	31	24	showers
Algiers	31	24	showers
Amsterdam	14	10	drizzle
Athens	24	18	drizzle
Atlanta	24	18	drizzle
B. Aires	10	5	cloudy
B. Aires	10	5	cloudy
Bombay	33	24	rain
Buenos Aires	15	10	showers
Bangkok	33	24	rain
Berlin	18	10	showers
Bombay	33	24	rain
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Bangkok	33	24	rain
Berlin	18	10	showers
Bombay	33	24	rain
Buenos Aires	15	10	



**IN BRIEF**

**SMH expects modest growth**

SMH, the leading watchmaking group, is looking for only modest profit growth but has renewed confidence in the long-term prospects of its core business. The once fast-growing group, known best for its Swatch plastic watches, suffered stagnation of sales last year. Page 18

**Italian roadshow on the move again**  
After a pause for month-long general elections, the Italian privatisation show hit the road again yesterday. Page 18

**Sprint deal part of a trend**  
If it is consummated, the prospective tie-up between Sprint, the third largest US telecommunications carrier, and the state telecom operators of France and Germany will be the second of three grand international telecom alliances expected to be formed by the end of the year. Page 19

**Daewoo in Indian joint venture**  
Daewoo, the South Korean industrial group, is planning a joint venture car assembly plant in India with DCM-Toyota. Page 19

**Chase Manhattan gains equity powers**  
Chase Manhattan has become the latest bank to be given the power to underwrite and trade equities in the US, marking a further erosion of the barriers that have kept commercial banks out of investment banking business. Page 20

**Fleece increase**  
Australia's wool industry has seen a marked turnaround in the past six months, with the local market indicator price recovering from 381 cents a kilogram - the lowest level this century - to 625 cents. Page 28

**Sustained gains for Nikkei forecast**  
A wave of buying in the final minutes of the day drove the Nikkei back above the 21,000 mark yesterday. Traders were talking about higher prices, with one analyst suggesting the Nikkei could gain 20 per cent this year. Back Page

**Amerisham powers ahead 65%**  
Solid underlying business growth, exchange rate movements and a US acquisition helped Amerisham International, the UK health science group, increase pre-tax profit 65 per cent. Page 22

**Jim Maxmin to get £1.2m**  
Jim Maxmin, the former chief executive of Laura Ashley, is to receive a £1.2m (\$1.8m) pay-off following his abrupt departure from the UK fashion retailer which he is widely credited with reviving. Page 22

**National Grid fuels fleet hopes**  
National Grid, operator of the high voltage power transmission system in England and Wales, yesterday fuelled expectations of a flotation. Page 22

**Multimedia group to be floated**  
Videologic, the UK multimedia company, is to be demerged from its parent, Aveco, the broadcast services company, and floated on the London Stock Exchange. Page 23

**St James's strongly up**  
St James's Place Capital, the UK financial services group run by Lord Rothschild and Sir Mark Weinberg, yesterday announced a rise in pre-tax profits from £12.3m to £31.1m. Page 23

Companies in this issue			
AIG	17	Henderson Admin	21
Alexander & Alex'dor	17	Hutemaiki	18
Allied Colloids	24	Ins	18
Amerisham	22	Ingham	23
Anglian Group	21	Leigh Interests	24
Anglian Water	18	Metra	17
Apollo Metals	23	NatWest	15
Apple	18	National Grid	22
Ashley (Laura)	22	Nationwide BS	21
Avesco	23	Nestlé	18
BCP	18	Norcross	23
BT	18	Powerscreen	22
Bangkok Bank	18	RPC	21
Barclays	15	Rhone-Poulenc Rorer	18
Bartelmann	18	Ricardo	23
Bloombury Publish	21	Rosa Group	24
Brent Walker	12	Royal Bank of Scot	15
CML Microsystems	18	SMH	18
Cariplo	18	Schroder Japan Grow	23
Cellnet	17	Securitas	17
Coal Investments	24	Sprint	18
Cook (DC)	24	St James Place Cap	23
Coopers & Lybrand	17	Staveland Industries	22
Credito Italiano	13	TR Property Inv Tst	24
Daewoo	18	Touche Ross	17
Deutsche Telecom	18	Trafalgar House	24
FF Developments	23	Videologic	23
France Telecom	19	Vodafone	17
Gardiner	24	Volvo	18
Great Portland Ests	22	Wellcome	17

Market Statistics			
Annual reports service	30-31	Foreign exchange	36
Benchmark Govt bonds	20	Gifts prices	20
Bond futures and options	20	Life equity options	Back Page
Bond prices and yields	20	London share service	30-31
Commodities prices	20	London trad options	Back Page
Dividends announced, UK	21	Managed funds service	32-36
EMS currency rates	36	Money markets	36
European prices	20	New int bond issues	20
Fixed interest indices	Back Page	Recent issues, UK	20
FT-A World Indices	Back Page	Short-term int rates	36
FT Gold Mines Index	Back Page	US interest rates	37
FT/STMA int bond sec	20	World Stock Markets	37
FT-SE Actuaries Index	20		

Chief price changes yesterday		
FRANKFURT (DM)		
Fluoro	685	+ 25
Lafly Interests	230	+ 10
Zander	428.5	- 13
Bay Hypo Bk	415	- 7.3
MAN	775	- 8
Porsche	685.5	- 13
NEW YORK (\$)		
Fluoro	364	+ 3h
Fluoro-Poulenc	108h	- 1h
Fluoro	59	- 1h
Lotus Dev	59h	- 1h
Microsoft	53h	- 1h
Wallat	147	- 7
PARIS (FFv)		
Fluoro	723	+ 31
Fluoro	787	- 12
Fluoro	862	- 21
Fluoro	833	- 12
Fluoro	707	- 13
Fluoro	770	- 25
LONDON (Pence)		
Fluoro	940	+ 17
Fluoro	485	+ 25
Fluoro	945	+ 12
Fluoro	621	+ 33
Fluoro	494	- 24
Fluoro	690	- 20

New York prices at 12:30pm		
LONDON (Pence)		
Fluoro	280	+ 11
Fluoro	971	+ 33
Fluoro	251	+ 13
Fluoro	485	- 9
Fluoro	230	+ 11
Fluoro	128	+ 6
Fluoro	255	+ 6
Fluoro	153	+ 12
Fluoro	147	- 7
Fluoro	155	+ 7
ST. JAMES'S PLACE		
Fluoro	627	+ 7
Fluoro	262	+ 10
Fluoro	478	+ 8
Fluoro	82	- 12
Fluoro	196	- 7
Fluoro	313	- 9
Fluoro	79	- 10
Fluoro	211	- 14

# AIG injects \$200m into A&A

By Richard Waters in New York

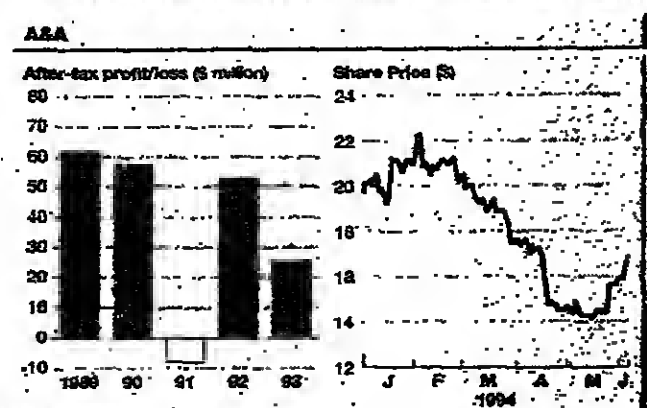
Alexander & Alexander, the US insurance broker, is to get a \$200m capital injection from the country's biggest property/casualty insurer, American International Group, as part of a plan to revive its ailing finances.

The deal will leave AIG with preferred stock convertible into 21 per cent of A&A's shares. At the same time, the broker slashed its dividend from 25 cents to just 2.5 cents to help preserve its depleted capital.

The investment comes after A&A moved in January to replace Mr Tinsley Irvin as chairman and chief executive in the wake of disappointing results. The company has been weighed down by legal settlements, depressed conditions in the property/casualty insurance market and a failure to reduce its costs.

A&A said that in recent months it had studied various alternatives to rebuild its finances, although it refused to

Alexander & Alexander: needed help with flagging finances



say whether these had included the possibility of an outright sale. Both companies denied yesterday that the deal would undermine A&A's independence as a broker. Under an eight-year standstill agreement, AIG would

not be able to take a voting stake of more than 9.9 per cent in the company. Also, the interest is in line with investments made by other insurers in the past. The broker said that Prudential, the US insurance giant, currently

owned more than 9 per cent of A&A, and Farmers - the US insurance subsidiary of BAT of the UK - had once owned a similar stake. A&A, which in the 1980s bought the Canadian firm Reed

Stanhouse, as well as Sphere Drake and Alexander Howden in the UK, is the second biggest broker in the world after Marsh & McLennan. It suffered fraud-related losses at Alexander Howden, and in 1992 announced a \$145m after-tax charge to cover asbestos and environmental liabilities taken on with Sphere Drake. It said part of the \$300m from AIG would be used to buy reinsurance to cover the Sphere Drake losses, although its assessment of the scale of these losses had not changed since 1992. AIG will receive an 8 per cent dividend on its convertible preference stock, payable in additional securities. The stock is convertible into common shares at \$17 a share - a rate fixed during discussions between the two companies on May 13, when the share price slumped towards \$14. Since then, the shares have climbed steadily, gaining another \$4 yesterday to trade at \$16 1/2 at lunchtime in New York. Lex, Page 16

## Wellcome opts for single auditor to cut costs

By Andrew Jack and Daniel Green in London

The board of Wellcome, the UK pharmaceuticals group, has approved a plan to remove accountants Touche Ross and appoint Coopers & Lybrand as sole global auditor and lead tax consultant from next year.

Details of the plan emerged after the company announced on Friday the surprise departure of Mr John Precious as finance director. This was the latest in a series of management changes, presided over by Mr John Robb, chairman and chief executive.

However, Mr Justin Court, group financial controller, stressed yesterday: "I really want to be utterly categorical that there is no connection with the departure of Mr Precious."

He said the controller's department had begun considering a change to a single firm a year ago in an effort to save costs. "Our level of indulgence has gone down somewhat. We are quite keen to get a bit more briskness."

He said Coopers won the audit following a "beauty parade" which included the three other firms that audit Wellcome subsidiaries around the world: Touche Ross, Price Waterhouse and KPMG Peat Marwick.

Mr Court expected the company's total audit fee - which was £800,000 last year - to fall by 30-40 per cent. But he said that Coopers, the UK's largest firm, had won the contract primarily because of its strength in the pharmaceuticals sector.

Some Wellcome executives are believed to have expressed anxieties about Touche following last year's reprimand of Trafalgar House, one of its audit clients, by the Financial Reporting Review Panel, the UK accounts watch-



John Robb: has presided over management changes

dog. But Mr Court said this was not a factor in the selection. Wellcome's decision is the latest in a trend among international companies to appoint a single global firm of accountants as auditors.

Touche Ross has recently gained the worldwide audits of Reed-Elsevier and Credit Lyonnais. Coopers is global auditor to companies including Glaxo.

Some of the rises in 1994 so far have been quite sharp - including 23 per cent on North Sea crude oil, 36 per cent on copper and 70 per cent on coffee. But the markets have been dangerously flooded with speculative money, much of it diverted from bonds after the spectacular end of last year's bull market.

Commodity markets can therefore be seen as reflecting the flipside of bond market sentiment: if it becomes generally accepted by the markets that the US economy is slowing down and inflation will stay reasonably low the money could flow straight back.

So although the cyclical case for commodities remains valid, certainly if economic recovery kicks in later this year in continental Europe and Japan, the ride is not likely to be at all smooth. There is no easy alternative to the securities markets.

## Vodafone dares rivals to cut mobile phone tariffs

By Andrew Adonis in London

Vodafone, the UK mobile communications group, said it expected to make no cuts in mobile phone tariffs this year and dared its rivals to cut theirs.

At yesterday's results meeting Mr Gerry Whent, chief executive, said: "They dare not cut another single penny, otherwise they will never see a profit."

Cellnet, Vodafone's main rival in the mobile cellular market, immediately responded that it was "happy to see that Vodafone shares our view that no price cuts are needed."

The announcements took some analysts by surprise, given that some mobile phone tariffs have fallen by more than a third in the past year, which has seen the launch of Mercury One-2-One and Hutchison Microtel's Orange.

However, one analyst said the statements were a "clear bid" to reassure the new operators that they need not resort to tariff cutting to build UK market share.

Vodafone announced a 12 per cent rise in pre-tax profits to £383.3m (£547m) for the year to March 31. Turnover increased 28 per cent to £850.5m, or 19 per cent leaving aside acquisitions. Mr Chris Gent, managing director of Vodafone's UK activities,

predicted that the UK cellular market would grow by about 50 per cent this year, with Vodafone broadly maintaining its 59 per cent share of the value of new business, although its share of overall subscribers might fall. Last year it saw 40 per cent growth to 1.17m in subscribers to its UK network.

Vodafone claimed to have 57 per cent of the lucrative UK cellular business market, despite falling to 54 per cent of subscribers as a whole - with most of the loss having gone to Cellnet.

Mr Whent said the company faced two challenges: transferring new UK customers from its analogue to its new digital networks; and building up its international holdings to equal its UK cellular business in terms of the value of overseas markets covered.

Start-up costs trebled to £45m last year and are projected to reach £50m this year. The group had year-end net cash of £111.1m, down from £132.5m.

Earnings per share rose 10 per cent to 24.3p (22.07p). A final dividend of 4.25p makes a total of 8.35p, up 20 per cent.

Vodafone is proposing a two-for-one scrip issue. Its shares slipped 4p to 518p yesterday. Lex, Page 16

## Metra and Securitas to merge lock sides

By Christopher Brown-Humes in Stockholm

A plan to create one of Europe's leading companies in locking and access control systems was yesterday unveiled by Metra, the Finnish industrial group, and Securitas of Sweden.

Metra's Abloy Security division will merge with the Securitas Lock Group to form Assa-Abloy AB, a company with SEK2.5bn (\$443m) in annual sales and 4,000 employees. The aim is to list the company on the Stockholm and Helsinki stock exchanges next spring.

Metra said the merger would create a strong company, capable of expanding and competing in Europe. It will be Europe's biggest manufacturer of cylinder locks. A final agreement is due to be signed in September.

The arrangement enables Metra to focus on diesel engines and bathroom ceramics, while allowing Securitas to concentrate on guard services and alarm systems.

The Finnish company will initially hold 55 per cent of Assa-Abloy and will receive a cash payment out of the new company to compensate for the size difference between Abloy Security and Securitas Lock. Abloy had 1993 sales of SEK2.5bn and a SEK46m profit, compared with profits of SEK78m on sales of SEK1bn at Securitas Lock.

When the merged company is listed, Metra's holding is expected to fall to 40 per cent, but it will remain the largest single owner. This is because Securitas intends to distribute its 45 per cent stake to shareholders in what is effectively a demerger.

Securitas said its net debt would fall to nil from SEK400m giving it a strong financial base from which to expand. It holds more than 5 per cent of the European security market.

Assa-Abloy will be based in Stockholm and Mr Carl-Henric Svanberg, first executive vice-president of Securitas, will be president and chief executive. The Nordic region will account for nearly half of total sales, but the US will be the largest single market with 1993 pro-forma sales of SEK860m. The UK and Germany are also large markets.

Securitas's lock operation, Assa, has a substantial UK market share and a strong position in the US and German high security markets. Abloy's operations include Cardkey in the US, Ikon in Germany and TrioVing in Norway.

## Barry Riley Tricky timing in the alternative markets



Commodity market fever has cooled off slightly in the past few days, but portfolio strategists are still tempted to dabble in real assets. As for equities, commodity-related sectors such as oil and mineral extraction are among the few showing gains (albeit modest) in the London stock market since the beginning of this year. Gold mining stocks, though, have been having an indifferent time.

With commodities, of course, you have to pick your moment. In general they have been rotten investments over the long run, with a steady fall in real values stretching over the whole century, and particularly in the 1980s - although there have been spectacular upstrokes from the trend, such as during the Korean War and the inflationary scares of the 1970s. There are one or two exceptions, such as timber, which has been sustaining a fairly rapid rate of increase - of close to 5 per cent a year in some cases, according to a recent World Bank study.

Nevertheless the general trend is downwards, probably reflecting consistent declines in costs of production and transport, both for agricultural and mineral commodities. The point, however, is that in cyclical terms the time for commodities to shine ought to be just about now.

Last March Mr Sushil Wadhwani of Goldman Sachs noted that the year after the US Federal Reserve begins to raise short-term interest rates tends to be a strong period for commodity prices. Since the 1970s such 12-

## In cyclical terms the time for commodities to shine ought to be just about now

month periods have produced average price rises of about 15 per cent, depending on the index used, while equities and (especially) bonds have struggled.

It might seem odd that commodity prices should rise when the carrying cost has just been increased, but of course there are much more powerful influences involved. Inflationary fears that may have stimulated the interest rate rise are negative for bonds but positive for commodity prices. Stronger economic growth is likely to be affecting the supply-demand balance. Moreover the transfer of speculative activity from the securities markets to commodities in search of richer pickings will itself tend to push up prices for a while.

At any rate, the pattern appears to be repeating itself. Many commodity prices have been quite firm this year. The indices vary considerably, but the Economist index is up 17 per cent while Goldman's own index is up a more modest 7 per cent. Curiously the CRB Futures Index, which so terrifies the US Treasury bond market when it strengthens, is scarcely changed on balance, after retreating from a late May peak.

Such rises are entirely in accordance with the historical cyclical patterns, and do not imply any

## "Gold & New"

We have been dealing in bullion for over a century. We are noted for our financial soundness and enjoy an international reputation in the world of gold and precious metals. So what's new?

What's new is our recent acquisition of Sharps Pixley, which enhances Deutsche Bank's already comprehensive services in this marketplace.

What's new is the unique combination of expertise, international experience and financial strength that we now offer central banks, financial institutions, commercial users, miners, refiners, dealers and investors worldwide.

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## INTERNATIONAL COMPANIES AND FINANCE

## SMH looks for modest improvement this year

By Ian Rodger in Bern

SMH, the leading watchmaking group, is looking for only modest profit growth again this year, but has renewed confidence in the long-term prospects of its core business.

Questions have been raised in recent months about the once fast-growing group, known best for its Swatch plastic watches, following the stagnation of sales last year and mixed reports about its diversification attempts into telephones and a Swatch car. Its share price has lost a third of its value since last July.

Mr Nicolas Hayek, chairman, said the modest 7 per cent growth in net income to SFr44m (\$31.5m) last year after two years of double digit rises was due mainly to a decision not to raise Swatch prices in countries whose currencies

fell against the Swiss franc.

The continuing strength of the franc was a problem as the group did not want Swatch to lose its low price identity, he said.

He dismissed suggestions that demand for Swatches was reaching saturation point. US sales had been disappointing last year, but were improving following management changes.

In Germany, first-quarter unit sales were up 8.5 per cent in a flat market.

Mr Hayek insisted that wrist watches would remain the group's core business, and Swatch, with a third generation of models on the way, would play a vital role in the volume sector.

Together with the related ETA components subsidiary, Swatch accounted for about a third of group profits, he said.

The group saw higher margin opportunities in its up-market brands, including Blancpain, Omega, Longines, Rado and Tissot, which account for 42 per cent of profits.

The slow developing diversification into telephones was taking a new direction into cordless sets. Mr Hayek said the group might acquire the telephone set division of a major leading telecoms manufacturer.

The recently announced joint venture with Daimler-Benz to develop an environmentally friendly Swatch city car would not require any more than 30 per cent of SMH's cash flow in the next three or four years.

The car would reach break-even point three years after sales began, at the latest, at the end of 1997.

## Huhtamaki hit by lower growth in first term

By Christopher Brown-Humes in Stockholm

Shares in Huhtamaki, the Finnish confectionery, food packaging and pharmaceuticals group, fell 10 per cent yesterday after it produced lower-than-expected profits in the first four months.

Taxable profits increased by 4 per cent to FM112m (\$20.4m), sharply lower than the FM150m profit anticipated by the market.

The shares fell to FM189 from FM210.

"People have got used to a big increase in Huhtamaki's profits and this slowdown was not expected," an analyst said. The performance reflected a slight improvement in operating profit, which rose to FM163m from FM161m, and a small reduction in financial costs to FM51m from FM53m.

Sales were up 13 per cent to FM2.7bn. Much of the growth derived from acquisitions which lifted the European sales of the Leaf confectionery business and Polarcup packaging.

This helped to compensate for a downturn in Leaf's North American operations and a stronger market.

Mr Timo Peltola, chief executive, said the group had a sluggish winter but market prospects for the rest of the year were slowly improving.

Leaf, the world's 10th largest confectionery group, is expected to win market share in North America while Polarcup's business is forecast to pick up during the summer.

## Ina takes the privatisation trail

After a pause for mould-breaking general elections, the Italian privatisation show hit the road again yesterday.

Less than three weeks after a parliamentary vote of confidence in Italy's new right-wing government, the Italian Treasury published the prospectus for the sale of up to 51 per cent of the Ina insurance group, which claims a bigger market share than any of its private-sector rivals in Italian life and non-life business.

The price for Ina shares will not be set until June 26, two days before the retail offer is launched, but the Treasury has confirmed that it will be between L2,200 and L2,700 a share, valuing the whole company at L5,600bn (£1,000bn (\$5.4bn-\$6.7bn)).

That will make Ina the biggest privatisation attempted by the Italian state, although it is almost certain to be dwarfed within a year by the sale of state-owned holdings in Stet, the telecommunications group, Enel, the electricity utility and Eni, the energy and chemicals group.

One challenge for Ina and its advisers is maintaining the momentum of investor interest. This was seen in the previous sales of the financial groups, Imi, Credito Italiano and Banca Commerciale Italiana (BCI). Domestically and internationally, both Stet - already a quoted company - and Eni are better known.

They are politically sensitive, which means they attract more media interest than Ina has in its 82-year history.

That said, the Ina sale is not short on technical and political

innovation. The last two public offers - of BCI and Credito Italiano - were criticised, after allies of Mediobanca, the Milan merchant bank, installed their nominees on the board.

New restrictions in the Ina sale will prevent such manoeuvring by treating investors linked through other companies' shareholder syndicates as though they are acting in concert. Together, such investors will not be able to buy more than 5 per cent of Ina. In addition, small shareholders' nominees will have seats reserved for them on the board, offsetting the dominance of large

"But our potential is much greater than theirs."

In particular, the group is hoping to take advantage of the opportunities in Italy's underdeveloped life insurance sector.

Life insurance represents a comparatively low share of the overall Italian market, because of generous state pension provisions. In 1992, for example, life insurance accounted for 27 per cent of the Italian market, compared with 66 per cent of the UK market. But increasing pressure on the Italian pensions budget means life insurance and other linked savings

pany, but concentrate exclusively on the sale of Ina products - by promoting younger more dynamic sales people, changing about 25 per cent of the network.

At the same time, the company is to promote the links between its life business and the sale of non-life products through its subsidiary, Assitalia. According to the company, this should offset the handicap imposed by new European Union regulations which prevent Ina and Assitalia from taking the logical step of uniting into a composite insurer, along British lines, just at the moment when EU liberalisation is increasing competition.

The board's second task, after restructuring the distribution network, will be to attend to Ina's extensive property assets.

The group starts with the advantage that its owners at the Treasury have allowed it to revalue the assets, which range from ordinary apartments to the historic Palazzo Strozzi in Florence, more than doubling their book value. If Ina sells some of its real estate - valued at just over L7,000bn - it will only have to pay tax on the increase since the year-end revaluation.

Some analysts see the low yield on this property as evidence that the assets have been overvalued, but at least this strong capitalisation should mean that Mr Palletti will be able to honour his pledge that no capital increases will be attempted "for the foreseeable future".

## The sale of 51 per cent of the insurance group will be Italy's largest disposal, writes Andrew Hill in Milan

institutions, a trend likely to be continued.

Mr Lorenzo Palletti, Ina's chairman since 1990, and a former head of Prudential's Italian operations, believes a similar Mediobanca-inspired raid on the Ina board is unlikely.

In any case, he will have enough on his plate bringing the group up to the same levels of efficiency as its competitors, without having to worry about boardroom infighting. Ina has been totally owned and managed by the state since 1912, and benefited from compulsory contributions from other insurance companies, until last year.

Some other insurance companies are probably operationally more profitable than us," admits Mr Palletti, disarmingly.

products are likely to be taken up as alternatives.

Ina still leads the sector - with an 18 per cent share at end-1993 - but has watched its hold over the market decline over the last few years.

However, Ina believes it should be able to arrest the decline by revamping its extensive distribution network of more than 7,000 sub-agents and sales people throughout Italy and by tapping the fast-growing bancassurance sector through an agreement with Banca di Roma, one of Italy's biggest banks, to sell Ina's products through the bank's extensive network.

Over the last year, Ina has tried to counter disaffection amid the ranks of its agents - most of whom are not employed directly by the com-

## Two Italian banks seek capital injections

By Andrew Hill

Two of Italy's biggest banks have outlined plans for increases in capital.

Credito Italiano, recently privatised, is to ask shareholders for authorisation to increase its capital by a nominal value of L2bn (\$1.2bn) over the next five years, through the issue of shares or a mixture of shares and bonds.

Meanwhile, Cariplo, the Milan-based savings bank, has finalised plans for a two-stage increase in capital which should raise more than

L2,500bn for the bank and allow the company to float a 22 per cent stake on the Milan stock market. The first stage of the offer is likely to start on July 11.

Credito Italiano ended speculation about an imminent rights issue with a statement yesterday convening an extraordinary meeting of shareholders at the end of June to vote on a new authority.

Banca Commerciale Italiana, Italy's other recently privatised bank, announced plans for a fully-fledged issue of

shares and warrants last week, to raise up to L2,362bn.

Banking sources said that Credito Italiano did not need to raise capital to finance its own development over the next few years.

However, the group wants to be in a position to move quickly if there are opportunities for acquisitions.

Cariplo announced in April that it was planning to float new shares in Milan.

On Monday, the bank confirmed that a first tranche of 600m shares would be issued at between L1,350 and L2,750,

raising between L1,410bn and L1,650bn.

Institutional shareholders will be limited to a 3 per cent stake in the company. The group has agreed to protect small shareholders' interests by reserving certain seats on the board for their nominees, an idea borrowed from the government's new rules for privatisation of the Ina insurance group.

A second tranche, in the form of bonds and warrants, will be sold before June 30, 1995, and should raise more than L1,000bn.

## Nestlé may buy Volvo food unit

By Christopher Brown-Humes

Nestlé, the Swiss food group yesterday confirmed its interest in buying Branded Consumer Products, the food, drink and tobacco company which Volvo wants to sell as part of a programme to focus on its vehicle businesses.

"We are interested in buying BCP. In fact we have started negotiations with a view to a possible acquisition," Mr Henrik Maucher, Nestlé chairman said in an interview with La

Gaceta de los Negocios the Spanish business daily.

Volvo said Nestlé was one of several groups which had shown an interest in BCP, but it declined to identify the others.

BCP, which includes Swedish Match and some of Sweden's best-known food and drink brands, is the biggest single unit on Volvo's sale list and is expected to raise more than SFr20bn (\$2.5bn).

The consumer products group achieved first-quarter

profits after financial items of SKr296m on sales of SKr4.85bn.

Volvo holds 74 per cent of BCP and has launched a bid for the outstanding shares. Its offer expires on Friday.

The vehicle group wants to gain 100 per cent control of BCP before it enters detailed disposal talks.

BCP was formed in late 1993 after the break-up of Procordia, a drugs-to-food group jointly controlled by the Swedish state and Volvo.

## UK water group cuts 900 jobs

By Peggy Hollinger in London

Anglian Water yesterday announced 900 job cuts in the latest indication of the upheaval facing the water sector as it faces a tougher pricing regime from next year.

The UK utility, based in the Huntingdon constituency of prime minister Mr John Major, is cutting 17 per cent of the 5,200 jobs in its core water and sewage business. Anglian is believed to be one of the top five employers in the region.

Mr Chris Mellor, Anglian's

finance director, said most of the job cuts would come from administration, with little scope left for cutting the blue collar side after cuts in the mid-1980s. At least two or more layers of management would be stripped out, he said.

Anglian is taking a £60m (\$91m) provision this year to pay for the redundancies and reorganisation. Mr Mellor said Anglian expected to make cost savings of more than £20m a year after 1996-97, with some savings beginning this year. About 600-800 of the proposed

job cuts would take effect from October, with the balance over the next two years.

The announcement comes as water companies examine the draft price increases set by Ofwat, the industry regulator, in May. Mr Ian Byatt, director general of Ofwat, is thought to feel the water companies have not cut costs quickly enough since privatisation in 1989. He is expected to set tough efficiency targets as part of the current price review, which will be made public on July 28. *See Page 16*

## Amer advances 76% to FM81m

Amer, the Finnish consumer group, saw pre-tax profits rise by 76 per cent to FM81m (\$14.7m) in the first four months, in spite of a worse performance from its Wilson sports unit and lower sales, writes Christopher Brown-Humes.

Sales fell 5 per cent to FM2.57bn, reflecting a stronger market, divestments and a 6 per cent drop in Wilson's sales.



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By: The Chase Manhattan Bank, N.A. London, Agent Bank

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Agent: Morgan Guaranty Trust Company

JPMorgan

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US\$1,000,000,000 Floating rate notes 1997

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Agent: Morgan Guaranty Trust Company

Notice of Revocation of Guarantee to the holders of the outstanding

6% Guaranteed Redeemable Convertible Preference Shares due 2003 (the "Preference Shares")

issued by

MEGGITT FINANCE N.V.

(the "Issuer")

and guaranteed by and convertible into Ordinary Shares (the "Ordinary Shares")

of

MEGGITT PLC

(formerly Meggitt Holdings plc) (the "Company")

In accordance with the terms of Clause 3 of the deed poll (the "Deed Poll") given by the Company on 6 July 1988 constituting the guarantee of the Preference Shares (the "Guarantee"), notice is hereby given that the Guarantee will be revoked with effect on 7 August 1994 (the "Revocation Date"). The revocation of the Guarantee is without prejudice to the operation of the Guarantee in relation to the Preference Shares expressed to be due, or any claim or other rights in relation to the exercise of the Conversion Rights (as defined below) in relation to any Preference Shares, on or prior to the Revocation Date and in respect of any dividends accruing after a failure to pay such redemption monies.

The Preference Shares will be redeemed on 6 July 1994 (the "Redemption Date") at the redemption price of £1,266.67 per Preference Share together with dividends accrued but unpaid to but excluding the Redemption Date all as calculated in accordance with the Issuer's Articles of Association.

Redemption payments on the Preference Shares and payment of dividends in respect thereof will be made against presentation and surrender of the relevant certificates or, as the case may be, the relevant coupons on or after the Redemption Date at the specified office of any of the Paying Agents. On the Redemption Date, unannounced coupons relating to such Preference Shares (whether or not attached) shall become void and no payment will be made in respect of them. Where any Preference Share is presented for redemption without all unannounced coupons relating to it, redemption shall only be made against the provision of such indemnity as the Issuer or the Company may require.

The holders of any Preference Shares retain the right to convert their Preference Shares into Ordinary Shares in accordance with the terms of the Deed Poll (the "Conversion Rights") up to the close of business on the seventh day before the Redemption Date.

The foregoing is subject to the provisions contained in the Deed Poll, the Issuer's Articles of Incorporation and the Agency Agreement relating to the Preference Shares.

Principal Paying Agent

Kreditbank S.A., Luxembourg

43 Boulevard Royal

L-2955 Luxembourg

Paying and Conversion Agents

Kreditbank N.V., London

7th Floor, Exchange House

Princes Street

London EC2A 2HQ

Kreditbank N.V., Brussels

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For and on behalf of MEGGITT PLC

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## Notice to the Shareholders

A dividend of \$US 1.30 per share will be paid against presentation of coupon N° 7.

Payment: from June 24th, 1994

Paying Agent: Kreditbank Luxembourg

The Board of Directors



## INTERNATIONAL COMPANIES AND FINANCE

## Daewoo in joint venture with DCM-Toyota

By John Burton in Seoul and Kevin Dine in London

Daewoo, the South Korean industrial group, is planning a joint venture car assembly plant in India as part of a production expansion in its motor division in the developing world.

The venture with India's DCM-Toyota, received Indian government approval last week, and will begin car production next year.

The new company, which will be renamed DCM-Daewoo, will be capitalised at \$200m with Daewoo holding a controlling 51 per cent stake.

Daewoo will renovate the car production lines at DCM-Toyota's plant in Noida City, which will assemble kits of Daewoo's LeMans Racer. Initial production will be 25,000 vehicles, but will increase to 50,000.

Daewoo is focusing on the developing world to achieve rapid growth for its car division, although it is also planning to market cars in western Europe in 1995 and the US a year later.

It is planning joint venture car assembly plants in the Philippines, Vietnam, Uzbekistan and Romania, all of which are expected to go into

operation in 1995 or 1996.

The strategy is part of Daewoo's plans to quadruple car output to 2.2m vehicles by 2000, with almost half the production to be located abroad.

Several of the world's leading carmakers are currently seeking a foothold in the Indian auto industry.

General Motors of the US, the world's highest vehicle maker, is to start car production in India in a joint venture with Hindustan Motors making an investment of around \$100m.

The GM venture will assemble the Opel Astra, GM's best-selling car in Europe, and will have a capacity to produce about 20,000 cars a year on two shifts starting in the third quarter of 1995.

Production will be located at an existing Hindustan Motors facility at Halol, near Vadodra in the state of Gujarat.

Mercedes-Benz of Germany meanwhile is to take 51 per cent in a joint venture with Tata Engineering and Locomotive (TRELCO). They plan to build up to 20,000 Mercedes-Benz E-Class executive cars a year - together with 50,000 petrol and diesel engines - at a plant near Poona with a total investment of DM250m (\$149.7m).

## Western Mining finds new gold deposit

By Nikki Tait in Sydney

Western Mining Corporation, one of Australia's largest mining groups, announced yesterday that it had discovered a new gold deposit in the vicinity of its existing Kambalda/St Ives nickel-gold operation in Western Australia.

The deposit, named Redoubtable, lies beneath shallow lake sediments on Lake Leiby at Kambalda. WMC said that the deposit was "of modest size". Evaluation drilling is still under way, and an estimation of the ore reserve is not yet available.

However, the Melbourne-based company added that the potential existed for an open-

pit resource of around 1m tonnes, at a grade of four grams per tonne.

Mr John Ralph, chief executive of CRA, the Australian mining group in which RTZ of the UK holds a 49 per cent stake, is to retire on June 24 - four months earlier than previously announced.

CRA has already outlined the succession plans, which see Mr Leo Davis, CRA's mining director, take over as chief executive. Mr Ralph will initially become a non-executive director and deputy chairman.

Mr Ralph's decision to quit in June "follows review and discussion to ensure that there will be no negative effect on the company".

## Rhône-Poulenc may sell US unit

By Richard Waters in New York

Shares in Rhône-Poulenc Rorer, the US drugs company, jumped 11 per cent early yesterday on a statement from majority owner Rhône-Poulenc of France that it is considering alternatives that include a sale of the business.

The news came after last month's purchase of Syntex, another US drugs group, by Roche of Switzerland. The deal sparked speculation about other drugs company deals.

RPR said in a filing with the US Securities and Exchange

Commission, that its French parent was considering "several alternative transactions involving RPR... including transactions relating to business combinations, mergers or transfers of assets of securities involving RPR".

The statement was made in connection with a standstill agreement signed by Rhône-Poulenc when it acquired the majority interest in Rorer in 1990. Under that, the French company agreed not to raise its stake until after July 31 1997.

The French group owns 68.34 per cent of RPR and can only change the terms with the sup-

## Sprint warms up for race to link world telecoms

The US group's Franco-German tie-up reflects a global trend, writes Andrew Adonis and Martin Dickson

If it is consummated, the prospective tie-up between Sprint, the third-largest US long-distance telecommunications carrier, and the state telecoms operators of France and Germany will be the second of three grand international telecoms alliances due to be formed by the end of the year.

It will also set the seal on the contract between France Telecom and Deutsche Telekom, headed by Helmut Rieke, signed last December, when the two European state-owned companies announced an Eucelium (\$865m) alliance to develop much of their international networks business jointly.

The first alliance was announced last June, when British Telecommunications undertook to buy 20 per cent of MCI, the second-largest US long-distance carrier, and form a joint venture with it geared to the international business market. BT laid out \$5.3bn - \$1bn for the joint venture and the rest for the stake.

"That put the pressure on the rest of us with global pretensions to move fast," says a senior Deutsche Telekom executive. That meant, in particular, the French and German operators, the US giant AT&T, Sprint, and Unisource - a joint

venture between the Swedish, Dutch and Swiss state operators with Telefonica of Spain in loose association.

France Telecom and Deutsche Telekom were already linked in a joint venture called Eucelium, geared like Unisource to the market for "outsourcing" the telecoms needs of multinational companies. Their decision to deepen the alliance surprised no-one. However, intensive talks between the two and AT&T caused widespread consternation, given that it would involve a union of three of the world's four largest telecoms operators, each of them from the monopoly stable.

Disputes over the structure of an alliance, and fears about regulatory approval - the Franco-German link has still to be approved by the European Commission - appear to have scuppered the talks.

AT&T has since been in negotiations with Unisource; this has already led to co-operation between the two to win Europe's largest telecoms outsourcing contract. And analysts believe it could proceed further.

That tie-up left Sprint and the Franco-German partnership searching for allies. However, it has taken more than the elimination of prospective



Helmut Rieke: attracted to Sprint's reputation for innovation

partners to bring them together - a strong business rationale underlines the union, however difficult it may prove to be in practice.

The goal for all the companies engaged in the current matchmaking is simple: as international telecoms are liberalised, to carve out a leading share in the market they expect to develop for outsourcing the telecoms needs of multinational companies.

There is room for scepticism about the value, even the existence, of the market they are aiming at. According to Dataquest, the international consultancy, the European market for corporate outsourcing is expected to rise from \$500m in 1993 to \$1.7bn in 1995 - out of total European spending of \$185bn on telecoms services two years from now.

"It's only a tiny fraction of the total market they are going for," says Ms Kathy Burrows at Dataquest.

However, the large telecoms operators have convinced themselves that the market will grow fast thereafter, and that a commanding position in it could open up strategic opportunities.

To take advantage of them, each believes it needs to be in an alliance with four factors: money; a presence in the US, Europe and Asia-Pacific; a benign regulatory climate; and access to state-of-the-art network services.

The attraction of Sprint to France Telecom and Deutsche Telekom is its reputation for technological innovation, its international data network and its US operations. Its network extends to all three important sectors of the US market: long distance and international, local telephone and cellular wireless services. Given its small share of the US long-distance market (10 per cent against AT&T's 65 per cent), it is also unlikely to alarm regulators on either side of the Atlantic.

Sprint already has a sizeable international presence of its own, with sales offices and joint ventures in 34 countries and territories, and a stake in global fibre optic links. It is best-known internationally for SprintNet,

one of the world's leading data networks, linking computers in nearly 100 cities and 32 countries.

SprintNet is used for sophisticated corporate data information flows, such as bank transfer of funds or order processing and inventory tracking by multinational manufacturing companies. The group's SprintMail service also claims a substantial share of the international E-mail market.

Sprint needs capital to expand. And to be a respectable operator in the international outsourcing market, it needs a weighty European partner.

An alliance with the French and German operators offers the prospect of both.

But even if an alliance is announced, there are plenty of potential obstacles. Not the least of them is the severe difficulties being experienced by France Telecom and Deutsche Telekom in their efforts to restructure in order to face up to competition within Europe. The privatisation of the German operator appears to have run into trouble, and so afraid is the French government of the backlash from France Telecom's employees, it will not even start the process.

## Brierley sells building arm to HK group

By Louise Kahoe in San Francisco

Brierley Investments, the New Zealand hotels and investments group, is selling Downer, its construction arm, to Paul Y-ITC Construction of Hong Kong, AP-DJ reports from Hong Kong.

The deal will make Brierley a 17 per cent shareholder in Paul Y, which will issue 98m shares at HK\$2.50 each to pay for Downer. It will also place a further 52m of its shares, at the same price, with Brierley.

Paul Y is a Hong Kong-based construction concern. The merged group will have activities in Hong Kong, China, south-east Asia and Papua New Guinea.

It will have the financial strength to participate in large infrastructure projects in Asia, Australia and New Zealand, Mr Andrew Meehan, Brierley executive director said.

## Apple in panel display move

By Louise Kahoe in San Francisco

Apple Computer is to collaborate with a small US manufacturer of flat panel displays, OIS Optical Imaging Systems, to develop displays for Apple's next generation of notebook computers.

OIS will be the first US manufacturer to supply active matrix liquid crystal displays to the computer industry. Sharp, of Japan, is the dominant world supplier of these displays which are used in avionics and a variety of electronic instruments.

OIS, an affiliate of Guardian Industries, plans to build the first US high volume manufac-

turing facility for active matrix flat panel displays at a cost of around \$400m.

The agreement with Apple follows a recent announcement by the US administration of an initiative to boost US flat panel display manufacturing. The \$600m initiative, which includes incentives for companies that are establishing display manufacturing operations in the US has yet to be funded.

OIS plans to seek government support for research and development through the Commerce Department's Technology Redevelopment Programme (TRP). "We believe that we are well positioned to submit a proposal," said OIS.

Apple, which currently purchases flat panel displays from Japan, said that it may support OIS in its application for TRP.

"We would like to see a US supply base," said flat panel displays, Apple said.

However, the agreement with Apple and plans for expanded manufacturing were not prompted by the government incentive. Mr Ralph Gerson, chairman of OIS, "Government incentives might expedite our plans, but we envisage private funding for our expansion," he said.

In the first phase of its agreement with Apple, OIS will develop a new, high-performance active matrix display to Apple's specifications and deliver prototype displays.

## Bertelsmann shelves TCI joint venture

Bertelsmann Music, part of the German Bertelsmann media group, has shelved plans to launch a music video and home-shopping cable-TV channel with Tele-Communications Inc (TCI), the biggest cable system operator in the US, AP-DJ reports from New York.

The companies had planned to launch the service later this year to compete with Viacom's MTV channel.

Several large music industry companies, including the music divisions of Sony, Time Warner, Thorn EMI and Polygram, later announced plans to launch a music channel.

## Canadian pulp grouping buys French mill

A Canadian joint venture between Cascades, the Canadian paper group, and Tembec is buying a fluff pulp mill in south-western France from Cellulose du Pin Tarter, writes Robert Gibbins in Montreal.

The mill has capacity for 140,000 tonnes a year. Cascades will use 40,000 tonnes yearly for its own European board plant and supply management services.

Tembec, a big eastern Canada producer, will supply technical and marketing services. The mill is in the Landes region.

## Tribune publisher buys farm magazine

By Laurie Morse in Chicago

The Tribune Company, the Chicago-based newspaper publisher and entertainment concern, has purchased North America's largest farm publication, The Farm Journal. Terms were not disclosed.

The acquisition is expected to enhance the Tribune's farm radio broadcast network and provide programming for its on-line computer information services.

The Farm Journal is privately held. It comes out 13 times a year, and has 175 full-time workers, including 45 reporters and editors. Circulation is around 700,000, taking to publications such as Top Producer, Beef Today and Hogs Today.

The company also maintains a "hot" database of demographic information on farm operations, and owns a market research firm specialising in agricultural topics.

The Tribune, which publishes Chicago's leading newspaper, has a reputation as an urban news organisation. However, its vast radio network reaches deep into mid-west farm communities.

"Farm Journal and Tribune share a commitment to serving the agricultural community, and a vision for developing new products and services for farmers and advertisers," said Mr James Dowdle, president of Tribune Broadcasting company.

"Our combined resources offer a strong base to explore new opportunities in electronic publishing, television programming, database and other advertiser services, additional print titles and, of course, radio," Mr Dowdle said.

## Minproc halts funding plan

By Nikki Tait in Sydney

Minproc, the Western Australian mining and engineering company, has suspended plans to raise \$350m (US\$258m) after Kerr-McGee, the US group, said it wanted a bigger interest in their Twest joint venture.

Minproc added that it planned to resume the fund-raising effort, once the Twest matter was settled.

TENDER NOTICE  
UK GOVERNMENT  
ECU TREASURY BILLS

For tender on 14 June 1994

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 1,000 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 14 June 1994. An additional ECU 50 million nominal of Bills will be allotted directly to the Bank of England for the account of the Exchange Equalization Account.

2. The ECU 1,000 million of Bills to be issued by tender will be dated 16 June 1994 and will be in the following maturities:  
ECU 200 million for maturity on 14 July 1994  
ECU 500 million for maturity on 15 September 1994  
ECU 300 million for maturity on 15 December 1994

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Securities Office, 1 Threadneedle Street, London EC2 7AH, not later than 10.30 a.m. London time, on Tuesday, 14 June 1994. Payment for Bills allotted will be due on Thursday, 16 June 1994.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with ESO, Euroclear or CEDEL, Bills will be credited in the relevant systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at the Securities Office of the Bank of England after 1.30 p.m. on Thursday, 16 June 1994 provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005316 with Lloyds Bank Plc, International Banking Division, PO Box 19, Hays Lane House, 1 Hays Lane, London SE1 2HA. Definitive Bills will be available in amounts of ECU 10,000, ECU 50,000, ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. Her Majesty's Treasury reserve the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill programme issued by the Bank of England on behalf of Her Majesty's Treasury on 28 March 1993, and in supplements to the Information Memorandum. All tenders will be subject to the provisions of that Information Memorandum (as supplemented).

9. The ECU 50 million of Bills to be allotted directly to the Bank of England for the account of the Exchange Equalization Account will be for maturity on 15 December 1994. These Bills may be made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented) in order to facilitate settlement.

10. Copies of the Information Memorandum (and supplements to it) may be obtained at the Bank of England, UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

Bank of England  
7 June 1994

## Strong April at Bangkok Bank

By William Barnes in Bangkok

Bangkok Bank, Thailand's largest commercial bank, has taken the unusual step of issuing a four-month financial report soon after reporting an unusual decline in first-quarter earnings. The latest report shows a 12 per cent advance in net profits against a year ago.

Bangkok was the only one of Thailand's leading banks to report a decline in first-quarter net profits, down 5 per cent at B34.45m (\$136.7m).

"We think they wanted to set

the record straight, having lost face with their first-quarter results. They seem to have had a colossal April," said HG Asia's country manager, Mr George Morgan.

The quarterly profits fall was blamed partly on the fact that B1.5bn of unaccrued interest receivables were injected into the first-quarter 1993 result.

The bank's executive vice-chairman, Mr Damrong Krishnamara, said net profits for the first four months of this year were B15.5bn, compared with B14.87bn a year ago.

This shows the bank made profits of B11.93bn in April alone, representing 65 per cent year-on-year growth for that month. It suggests the bulk of B180m in unaccrued interest receivable from a motorway contract was taken in April.

Mr Damrong said the bank's total deposits were 10.2 per cent higher than a year ago, at B589.2bn, at the end of April. Early this year, the bank's president, Mr Vichit Sarapongchai - number four in the bank's decision-making hierarchy - left suddenly.

## Eridania adds to Spanish oils operations

By Andrew Hill in Milan

Eridania Béghin-Say, the French agro-industrial subsidiary of Italy's Montedison, has taken control of Elosua, the Spanish edible oils company, only a day after getting European Commission permission for the deal.

The purchase, for an undisclosed price, gives Eridania some 40 per cent of the Spanish edible oils market. It intends to merge Elosua with Koipe, its own Spanish subsidiary.

The deal also brings to an end a long-running political controversy over control of the Spanish olive oil sector, and creates one of the world's largest edible oils groups, with a combined turnover of just under Pta100bn (\$729.4m).

## Axel Springer media advertising falls 4%

By Judy Dempsey in Berlin

Axel Springer, the German media group which publishes Die Welt, and the mass circulation Bild daily, and as has growing interests in electronic media, yesterday reported a rise in profits for 1993.

Group profits rose from DM57.2m to DM71.4m (\$42.2m), last year. However, turnover dipped by 1 per cent to DM3.44bn. This was partly due to advertising revenue which fell by 4 per cent to DM1.52bn.

In addition, sales to eastern Germany weakened. Overall, total newspaper turnover rose by 2.8 per cent to DM11.96bn. The company invested DM223.9m compared with DM409.8m the previous year, when it was acquiring new titles. Last year it also introduced a restructuring pro-

gramme aimed at cutting costs. ■ Gustav & Grete Schickedanz Holding is selling its 97 per cent interest in brewer Patrizier Brau and raising stakes in three Quelle group insurance companies. Reuter reports from Nuremberg.

Schickedanz will raise its share of Quelle Lebensversicherung and Quelle Schickedanz Versicherung to 70 per cent from 50 per cent, and its interest in Quelle Krankensversicherung to 100 per cent from 74 per cent. Schickedanz did not disclose the terms of the transaction.

It was recently announced that Schickedanz was negotiating to sell its VP-Schickedanz tissue-paper unit to Procter & Gamble, the big US detergents group. This deal is reportedly facing opposition from the European Commission.

PAN - HOLDING  
Société Anonyme - Luxembourg

At its meeting of May 30, 1994, the Board of Directors decided to initiate the study of a project which would result, before year end, in better liquidity for the Company's shares at price levels very close to net asset value, assuming that the necessary authorizations are obtained.

As soon as the Board of Directors accepted a project modifying the current structure of the Company, a new press announcement will be published.

As of May 31, 1994, the consolidated net asset value per share was US\$ 684.90.

Highlights of the Annual General Meeting  
30 May 1994

**DIVIDEND**  
A dividend of US\$ 10.50 was declared for 1993 for shareholders of record at close of market on 30th June, 1994. The dividend, free of withholding tax in Luxembourg, will be payable as from 1st July, 1994. It shows an increase of 10.5% as compared to the dividend of US\$ 9.50 paid the previous year.

**NET ASSET VALUE**  
As of 31st May, 1994, the unconsolidated net asset value was US\$ 347,047,083.05 i.e. US\$ 630.99 per share of US\$ 200 per value compared to US\$ 621.77 as at 31st December 1993. The consolidated net asset value per share at 31st May, 1994 was US\$ 684.90 compared to US\$ 654.38 as at 31st December 1993.

**PERFORMANCES**  
Pan-Holding pursued its policy of actively managing an internationally diversified portfolio with particular focus on minimization of downside risk. This policy has proved successful both in the short term and longer term.

In 1993, the unconsolidated net asset value, net dividend reinvested, showed an increase of 24.66% compared to an increase of 22.6% for the Morgan Stanley Capital International World Index, net dividends reinvested.

For the first five months of 1994, in a highly volatile environment for stock markets, the unconsolidated net asset value increased by 1.48% (versus a 3.94% rise for the MSCI World Index).

Longer term, the performance was also good. Over 5 years, Pan-Holding's net asset value has outperformed international indices in US dollars, French francs and Sterling terms (the principal base currencies of the majority of shareholders).

31st May, 1989 - 31st May, 1994 (net dividends reinvested)

Pan-Holding			
	31/05/89	31/05/94	Performance
US\$	100.00	148.65	48.65%
FFr	100.00	122.05	22.05%
£	100.00	153.09	53.09%

Morgan Stanley Capital International World Index			
	31/05/89	31/05/94	Performance
US\$	100.00	135.45	35.45%
FFr	100.00	112.73	12.73%
£	100.00	141.38	41.38%

**CURRENT GEOGRAPHIC BREAKDOWN OF ASSETS**

Cash reserves	16.2%
North America	25.4%
Pacific Basin ex Japan	6.4%
Japan	19.0%
Europe	28.7%
Gold bullion and gold related	5.3%

**SHARE PRICE**  
On 3rd June, the share price was FLUX 17,450 in Luxembourg. The last quotation on the Over-the-Counter market in Paris was FFr 2,840.

Pan-Holding is one of the oldest continental European investment holding companies whose shares are quoted on the Luxembourg Stock Exchange and Over-the-Counter in Paris. Copies of the Company's 1993 Annual Report are available upon application to the Registered Office, 7 Place du Théâtre, Luxembourg L-2613 (Tel 352 46 24 01 - fax 352 46 25 27).

UPK 1015A



## INTERNATIONAL CAPITAL MARKETS

## Retreat by bunds drags European prices lower

By Tracy Corrigan and Graham Bowley in London and Frank McGurty in New York

German government bond prices were again on the retreat yesterday, driving other European markets down with them, as fresh data pointing to strong economic growth reinforced fears that interest rates in Germany have reached their low point in the current cycle.

West German gross domestic product grew 0.5 per cent in the first quarter, or 2.1 per cent year-on-year, suggesting that economic growth is exceeding economists' expectations. The data follows the recent upward revision of growth by the OECD, which now has a target of 1.8 per cent for the pan-European economy this year.

However, Mr Ken Wattret, an international economist at Midland Global Markets, said

that traders had ignored some positive elements for the market. "We believe the recovery is export-led, so the Bundesbank will continue to support

## GOVERNMENT BONDS

the recovery with rate cuts," he said, adding that the detailed figures back up this view.

However, the negative reaction to the data also reflects a generally bearish sentiment overhauling European bond markets. The German market failed to take any comfort from the downward revision of M3 money supply in April to 15.4 from the 15.8 per cent. Dealers said that unemployment data was ignored by the market, as it is not strictly relevant to the interest rate outlook.

The September German bond future on Life ended down 0.22 point at 92.27.

UK government bonds showed further weakness yesterday in a continuation of the trend seen in recent weeks.

With no new economic data published yesterday analysts saw no reason for investors to change their view of the market's prospects, and gilts drifted lower with other European markets.

"The underlying sentiment is still shot to bits," said one analyst. "Most institutional fund managers are optimistic but that is a long way from being willing to put money into the market. They don't want to take that risk."

Traders reported some profit-taking and said that there was disappointment that no further headway had been made after the rally last week.

"Quite a lot of money was spent last week and the UK rallied more than the other European markets. It was over-sold and it's now reached fair value, which means that prices have gone now," said Mr Bob Dobson, head of gilt sales at Daiwa Europe.

Analysts said today's industrial production figures and the outcome of the European elections would be important for gilts.

"If the Tories do slightly better than expected, then the market may get a bit of a boost," said Mr Ian Shephard, UK economist at Midland Global Markets. The long gilt future was down 1 1/2 point at 100% in late trading.

French government bonds moved slightly lower yesterday in trading dominated by movements in the German bond market.

Analysts said sentiment still remained negative. "Both France and Germany are cheap but we are still going to see continued selling," said one trader.

Mr Julian Callow, an economist at Kleinwort Benson, said that tomorrow's industrial production figures and consumer price data on Friday could provide further signs of strengthening economic recovery.

US Treasury bonds drifted lower in light trading yesterday, mirroring the European market's pause after a two-day rally.

By midday, the benchmark 30-year government bond was down 1/4 at 87 1/2, with the yield rising to 5.77 per cent. At the short end, the two-year note eased 1/4 to 100 1/4, to yield 5.72 per cent.

Early on, prices moved modestly lower as traders followed

through on weakness suffered by US securities in overnight trading in Tokyo.

During the mid-morning, bonds gradually clawed their way back, though there was no new economic news or overriding technical conditions to shape the morning's activity. Action in the commodity and foreign exchange markets was featureless. Still, prices ebbed for a second time near midday.

The next significant event on the economic calendar is the release of May producer price data on Friday, followed by consumer price figures next Monday. The market is priced for tame readings on inflation in both reports.

Economists are forecasting a 0.2 per cent increase in the PPI, following a slight decline the previous month. The CPI is expected to show a 0.3 per cent gain, against an 0.1 per cent increase in April.

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## Chase gains equity trade powers in US

By Richard Waters in New York

Chase Manhattan has become the latest bank to be given the power to underwrite and trade equities in the US, marking a further erosion of the barriers that have kept commercial banks out of the investment banking business.

Like others, though, Chase has no ambitions to grow a large-scale securities business quickly, and is anyway severely limited in its ability to underwrite and trade securities. Under Federal Reserve rules, only 10 per cent of its securities subsidiary's income can come from these activities.

Chase's cautious approach in the US has also been shaped by its disastrous experience in the UK, where it suffered big losses after acquiring local brokers Simon & Coates and Larrin Millbank in the mid-1980s.

"In the UK, we tried to build a stand-alone investment bank," said Mr Paul Brandow, president of Chase Securities in the US and a former head of Chase's UK securities business. "It never got integrated into the rest of the bank." The plan in the US, by contrast, is to use the securities powers to raise money for existing customers of the bank, he said.

Like a handful of other US banks, Chase has already used its powers to underwrite and trade debt securities to engage in the sub-investment grade bond business. It has also been among the most active US banks in bringing issuers from developing countries to the US market. The equity powers will be used to extend activities for these types of issuer, said Mr Brandow.

Chase is the sixth US commercial bank to be given equity powers.

## Hellenic Republic loan to pay Libor plus 80

By Antonia Sharpe

The Hellenic Republic disclosed yesterday that the annual interest rate on its forthcoming five-year \$500m syndicated loan will be 80 basis points over the London interbank offered rate (Libor).

The average life of the loan, Greece's first in four years and the first under its new sovereign name, is about 4 1/2 years since it will have to start repaying the loan in equal semi-annual instalments after three years.

Thirteen banks have underwritten the loan on an equal basis. The Bank of Tokyo, Chase International Bank, Citibank International, Dai-ichi Kangyo Bank, Fuji Bank, Hill

Samuel Bank, Lloyds Bank Capital Markets, Mitsubishi Bank, J.P. Morgan Securities, NatWest Capital Markets, Sanwa Bank, Sumitomo Bank and Union Bank of Switzerland.

Greece will not be paying a commitment fee on the loan since it is expected to draw down the whole amount within one month of the signing. Syndication started on Monday and is expected to close on or before June 24. Participation fees are senior lead managers (\$20m and above) 1.35 per cent; lead managers (\$10m to \$20m) 1.25 per cent; co-managers (\$5m to \$10m) 1.10 per cent; participants (\$1m to \$5m) 1 per cent.

## Moody's cuts BNP senior debt rating

By Tracy Corrigan

Moody's has lowered the debt rating of Banque Paribas de Paris and placed Société Générale's debt under review for possible downgrade.

BNP's senior debt rating, which had been under review since January 14, dropped from Aa1 to Aa3. The agency said the cut was based on a belief that BNP's profitability and economic capitalisation would be challenged for some time by asset-quality stress, competition among banks and low credit demand. Moody's said "a SocGen downgrade would probably be minor".

The Aa3 long-term debt rating of the industrial Bank of Japan has been placed under review for possible downgrade by Moody's.

## Ontario offering may have pricing concession

By Antonia Sharpe

The Province of Ontario is expected to make some concession on pricing in order to ensure a successful launch for its first global offering of its new fiscal year. The issue, which could emerge today, is expected to raise around \$1bn and have a maturity of 10 years.

Syndicate managers reported only muted interest in the deal, due to Ontario's frequent presence in the market and its recent downgrading. As a result, the price tag centred around 85 to 87 basis points over 10-year Treasuries, even though Ontario's outstanding dollar bonds were trading at a yield spread of around 83 basis points in the secondary market.

Salomon Brothers, which has been appointed joint bookrunner with Goldman Sachs, with RBC Dominion as joint lead manager, said the lack of a 10-year eurodollar benchmark would increase the attraction of Ontario's deal. There have been few eurodollar offerings with a 2004 maturity due to the volatility in the financial markets this year.

Advance Bank Australia, a building society-turned-bank operating mainly in New South Wales, made its first appearance in the eurodollar market yesterday with a \$250m offering of floating-rate notes due 1999. The discounted margin on the notes was 40 basis points over Libor. Lead manager J.P. Morgan said the bonds were selling well, reflecting the extensive pre-marketing efforts and the

bank's positive credit outlook. The bonds were kept in syndicate overnight.

Elsewhere, a rise in the Canadian dollar and continued currency arbitrage opportunities prompted a further supply of short-dated Canadian issues yesterday as SNCF and Swedish Export Credit raised a total of \$250m through offerings of five-year and three-year Eurobonds respectively.

Investors were attracted by the relatively high coupons on both issues, the proceeds of which were believed to have been swapped into

floating-rate dollars.

Argentina's Banco de la Ciudad de Buenos Aires will issue a \$20m tranche of six-month notes under its two-year \$100m euro-commercial paper programme.

West Merchant Bank and Banco Medefin are dealers for the programme.

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## WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

Coupon	Red Date	Price	Day's Change	Yield	Week	Month
Australia	8.000	09/04	102.300	-0.360	8.84	8.71
Belgium	7.250	04/04	92.130	-0.810	7.98	7.55
Canada	6.500	09/04	96.200	-0.150	8.98	8.75
Denmark	7.000	12/04	92.700	-0.120	8.05	8.11
France	5.500	04/04	104.370	-0.130	6.98	6.52
Germany	5.500	04/04	97.000	-0.230	7.40	7.34
Italy	8.500	01/04	91.200	-0.230	8.99	8.82
Japan	4.000	06/04	105.180	-0.630	9.28	9.14
Netherlands	5.750	01/04	90.800	-0.400	7.10	6.75
Spain	10.000	10/03	102.700	-0.300	10.02	9.58
UK Gilts	8.250	01/04	91.000	-0.820	8.15	7.91
US Treasury	8.750	11/04	98.400	-0.220	8.50	8.25
ECU (French Govt)	6.000	04/04	97.200	-0.170	7.91	7.44

London closing, New York mid-day. 1. Gross including withholding tax at 12.5 per cent payable by non-residents. 2. Prices US \$100, others in local currency. Source: M&S International

## US INTEREST RATES

Rate	One month	Three month	Six month	One year	Two year	Three year	Five year	Seven year	Ten year
Prime rate	7 1/4	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Bidder base rate	7 1/4	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Federal funds rate	4 1/4	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Discount rate	5 1/2	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00

## BOND FUTURES AND OPTIONS

## France

Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	117.00	117.20	-0.22	117.28	116.52	258,835
Sep	116.08	116.24	-0.24	116.34	115.60	44,598
Dec	115.16	115.34	-0.24	115.16	115.12	27,870

Strike	Call	Put	Settle	Change	High	Low	Est. vol.	Open Int.
116	1.25	1.81	-	-	1.04	1.75	-	-
117	0.79	1.37	-	-	-	-	-	-
118	0.44	0.96	-	-	-	2.77	-	-
119	0.22	0.68	-	-	-	3.39	-	-
120	0.09	0.40	-	-	-	-	-	-

Est. vol. total, Call 26,112 Puts 32,714. Previous day's open int. Call 270,827 Puts 236,888.

## Germany

Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	92.85	92.85	-0.24	93.13	92.50	8623
Sep	92.26	92.27	-0.32	92.56	92.11	151,793
Dec	92.36	92.36	-0.24	92.60	92.10	230

Strike	Call	Put	Settle	Change	High	Low	Est. vol.	Open Int.
92.00	0.91	1.34	1.58	1.84	1.07	1.31	2,000	-
92.50	0.65	1.07	1.32	1.60	0.89	1.20	1,555	-
93.00	0.44	0.85	1.08	1.28	0.71	1.01	1,252	-

Est. vol. total, Call 11,899 Puts 11,307. Previous day's open int. Call 152,735 Puts 151,874.

## UK Gilts Prices

Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	98.83	98.70	-0.36	98.88	98.70	79
Sep	98.20	97.99	-0.39	98.20	98.20	28

Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	98.83	98.70	-0.36	98.88	98.70	79
Sep	98.20	97.99	-0.39	98.20	98.20	28

Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	98.83	98.70	-0.36	98.88	98.70	79
Sep	98.20	97.99	-0.39	98.20	98.20	28



## COMPANY NEWS: UK

## Anglian Group at £25m in improving market

By Simon Davies

Anglian Group, the double glazing company, yesterday announced an 8.7 per cent increase in annual pre-tax profits to £25.1m, despite the loss of business from the privatisation of the Property Services Agency.

Mr Bill Hancock, chief executive, said: "We do not expect the current year to be easy, but consumer confidence in the domestic sector, though still patchy, has improved."

The share price rose 13p to 251p yesterday, but that compared with a price of more than 320p before the March profits warnings over PSA sales.

Anglian revealed that sales to the PSA market for the year to April 2 had fallen from £19.2m to £7.8m. It added, however, that it had achieved a reasonable level of lower margin sales to the PSA's successors and had also increased sales to local authorities and housing authorities.

Reflecting this confidence, the dividend for the year is being increased by 8.4 per cent to 10.3p via a recommended final of 6.2p. Earnings per share rose from 18.7p to 19.3p.

Total turnover increased by 17 per cent to £176.7m.



Bill Hancock: doesn't expect the current year to be easy

although £17.2m of the figure was attributable to recently-acquired New England Windows. Increased retail sales made up for the PSA shortfall. Overall, profit margins were roughly maintained at 14.8 per cent.

Anglian said the new automated production line would begin operating later this month and said it was confident this would enable it to ease pressure on its profit margins. These would also be

boosted by a 5 per cent increase in prices, put through in January.

The company recently acquired a 77.5 per cent stake in Living Design, one of Scotland's largest window and kitchen groups. It was now looking at the possibility of acquiring a PVC-U business to lower costs for the new production base.

Anglian has also expanded into the security alarm business through the purchase of 76 per cent of Status Innovations, with a view to marketing security products to its existing client base.

### COMMENT

Anglian has succeeded in weathering the recession with remarkable ease, but having already taken a main share of the market it is going to struggle to achieve more. Its new production line should help maintain profit margins, but the market place remains competitive, and it will have to rely on volume increases to boost its profits. Analysts believe it can push pre-tax profits up to £25m for the current year, which leaves the shares on a p/e ratio of 11.5. This suggests some upside potential for the share price, but the outlook is unexciting.

## Henderson Admin rises 39% to £20.3m

By Bethan Hutton

Henderson Administration, the fund management group, increased funds under management by 18 per cent to £15.5bn at the end of March 1994, in spite of losing pension fund accounts.

Pre-tax profits were up 39 per cent from £14.6m to £20.3m. These are the first full-year results to include a full contribution from the Touche Bemann fund management business, acquired in December 1992.

Revenue increased by 38 per cent from £47.7m to £65.7m, and expenses rose 26 per cent to £48.1m, producing an operating profit of £17.6m. Interest and investment income fell from £5.48m to £2.18m.

Earnings per share grew 43 per cent to 65.3p, and the total dividend rose 5 per cent to 44p after a recommended final of 31.5p (29.5p).

Mr Ben Wrey, chairman, blamed the loss of pension fund business on the highly competitive state of the pensions market, where the tendency was for funds to be concentrated in the hands of the top four or five managers.

Mr Wrey said Henderson was relying on its improved performance record, placing it twelfth out of 36 managers over a five year period, to stop the outflow of funds. The group had £5.25bn (£5.38bn) pension money under management at the end of March.

Funds under management increased most sharply in the international division, being more than doubled at £394m, against £197m. The figure included Seligman Henderson, the US joint venture, as well as other clients in the US and the Netherlands. Funds under administration, including offshore funds and Peps, grew by 88 per cent to £1.4bn.

On the retail side, one new investment trust, the ETS Japanese Smaller Companies trust, was launched during the year. The unit trust range was rationalised to remove overlaps between Henderson and Tonche Ramoant funds. Investment trust funds under management stood at £3.58bn at the year end, up 24 per cent, and unit trusts at £1.34bn, up 18 per cent.

Associated businesses made a profit of £464,000, after a loss of £585,000 last year.

## Nationwide up 47% but mortgage demand flat

By Norma Cohen, Investments Correspondent

Nationwide Building Society, the UK's third largest, yesterday announced a 47 per cent rise in pre-tax profits to £252.7m for the year ended April 4 despite flat mortgage demand.

The society benefited particularly from a reduction in loan loss provisions, cuts in administrative expenses and strong commission growth from sales of life and general insurance products.

Net mortgage balances for the year were stable at £28.1bn, and Nationwide said it had taken steps to improve the quality of its mortgage business. Provisions for losses on mortgage loans fell to £266.2m (£285m), while other loan provisions fell from £44.3m to £26.1m.

Mr John Wrigglesworth, building society analyst at stockbrokers UBS Phillips and Drew, said that while the latest results showed a strong improvement at Nationwide, "they are not out of the river yet".

The society's ratio of provisions to loans, at 1 per cent, is still well above the industry average of 0.7 per cent. While Nationwide has made

great strides in paring its costs-to-income ratio to 49.44 per cent against 53.45 per cent a year ago, the ratio remains well above the average of 43 per cent for the top 20 building societies.

Retail deposits remained unchanged at £25.4bn despite tough competition for individual customers' funds. Nationwide said. Wholesale funds also were little changed at £7.02bn, compared with £7.33bn.

The society's gross capital ratio rose to 7.5 per cent from 6.6 per cent at the end of the previous fiscal year, while its free capital ratio rose

from 4.9 per cent to 6 per cent.

Mr Tim Melville-Ross, chief executive, said that in an effort to develop stronger relationships with its retail customers, it planned a further targeted individual mailing to all its discontinued account customers.

In retail financial services, Nationwide earned £115m from commissions on the sale of life and general insurance products, up from £107.7m.

Nationwide, which currently has an exclusive agreement to sell the products of Guardian Insurance, plans its own insurance subsidiary, Nationwide Life, from 1995.

## Bloomsbury Publishing to raise £5m via placing

Bloomsbury Publishing, the Soho-based company started in 1986 is seeking to raise £5m in a placing when it comes to the market this month, writes Antonia Sharpe.

The flotation will value the company at about £8.5m. A prospectus will be issued next week and dealings should start the week after.

Of the total raised, £2m will go to Bloomsbury's original backers which include Baring

Venture Partners, Caledonia Investments and ECI Ventures.

After the flotation, their combined stake will fall from a little less than 50 per cent to a little more than 10 per cent. About £250,000 will be shared among the authors who are beneficiaries of the Bloomsbury Authors' Trust.

The remainder will be used to expand into home reference books, paperbacks and children's books.

## RPC advances 12%

By Maggie Urry

RPC Group, the rigid plastic packaging maker which came to the stock market in May last year, yesterday reported an 11.8 per cent rise in pre-tax profits from £6.83m to £7.63m in the 53 weeks to March 31.

Mr Lindsay Mackinlay, chairman, said the results were in line with the group's expectations at the time of the float, and that the current year had "started satisfactorily although our markets remain competitive". The shares, which were floated at 125p, fell 1p to 151p yesterday.

Operating margins increased once more, from 10.8 per cent to 11.5 per cent, and Mr Ron Marsh, chief executive, said there was scope to improve them yet further.

Mr Chris Sworn, finance director, said the margin increase stemmed from higher volumes, a reduction in some overheads, including audit fees, and a switch from low margin products such as soft drink bottles to higher margin lines like sauce bottles.

Mr Marsh said new products included bottles for Marks and

Spencer's bath foams, bottles for Tate & Lyle "Tops" syrups, and squeeze bottles for HP Sauce. A range of baby wipe containers employed three different processors and RPC was the only UK producer who could supply the full range. It had also recently introduced 25 per cent post-consumer recycled material into its plastic paint containers, meeting environmental concerns.

Group sales rose 6.7 per cent to £68m, roughly equalling the increase in tonnes of raw materials used as prices remained under pressure.

Operating profits rose 13 per cent to £7.63m, before a rise in the interest charge to £220,000 (£123,000), which was caused by the £4.18m cash outflow at the time of the float when preference shares were redeemed and some ordinary shares bought in.

Year end debt stood at £4.09m, 15 per cent of shareholders funds.

The tax rate was 28 per cent, and earnings per share were 9.4p. A recommended final dividend of 2.2p gives a total of 3.2p, compared to a notional 3p.

### DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Colloids	3.72	Aug 31	3.35	4.72	4.29
Amersham Int	11.1	July 22	9.5	15.5	13.5
Anglian Group	6.2	Sept 8	5.8	10.3	9.5
Anglian Water	15.5	Oct 3	14.3	22.8	21.1
Apollo Micro	1.2	July 29	1.2	-	3.8
Chel Micro 9	6	July 29	4.7	6	4.7
Cartmore Value	0.952	-	0.952	3.21	3.51
Great Portland	5.3	July 18	6.8	8	10
Henderson Admin	31.5	July 19	29.5	44	42
Ingham	3.25	Aug 19	4.5	5	8.8
Leigh Interest	5.37	Oct 3	5.37	7.23	7.23
Mortecs	3.5	Aug 2	3.5	7	7
Powerscreen	5.3	July 29	4.8	7.3	6.6
RPC	2.2	Aug 12	-	3.2	-
Stavely	6.2	Aug 9	6.2	8.5	8.5
St James's Cap	1.5	July 29	1.5	3	3
TR Prop Inv Trst	0.5	July 28	0.5	0.9	0.9
Turkey Trust	nil	nil	nil	-	3
Vodafone	4.231	Aug 17	3.53	8.35	6.96

Dividends shown pence per share net except where otherwise stated. \* For 15 months.

### LEGAL NOTICES

#### "TAIWAN SUPPLY BUREAU" TENDER ANNOUNCEMENT

BUYER: TAIWAN RAILWAY ADMINISTRATION (TRA)  
PURCHASING AGENT: TAIWAN SUPPLY BUREAU (TSB)  
3, KAI FENG STREET, 1ST SEC.  
TAIPEI, TAIWAN, R.O.C.  
TEL: (02) 3110814 FAX: (02) 3610995

INVITATION NO.	TENDER OPENING DATE	DESCRIPTION OF SUPPLIES	QTY/UNIT (CAR)
TSB-9432-130	9:30 A.M. JUNE 30, 1994	I. DIESEL MULTIPLE UNIT (DMU) II. DIESEL RAILCAR (ORC)	10 UNITS (30 CARS) 36 CARS

For further details, please refer to the tender invitation. The tender invitation is waiting to be taken back (fee USD340) and welcome to participate.

### PERSONAL

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IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
NO 002742 OF 1994  
IN THE MATTER OF  
CLARK, NICKOLLS & COOMBS PLC  
IN THE MATTER OF  
THE COMPANIES ACT 1985  
NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 25th May 1994 confirming the reduction of the capital of the above named Company from £27,416,570.40 to £22,000,000 and the share certificate issued by the Court sharing with respect to the capital of the Company as altered by the order, and the share certificate issued by the Registrar of Companies on 27th May 1994.  
Dated this 8th June 1994  
Lorrell White, Chartered, 65 Holborn Viaduct, London, EC1A 1JY  
Solicitors for the above named Company.

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JP Kuo's SA



## COMPANY NEWS: UK

## Amersham shows 65% growth to £43.5m

By Paul Taylor

Solid underlying business growth, exchange rate movements and a US acquisition helped Amersham International, the health science group, increase pre-tax profit by 65 per cent from £26.3m to £43.5m in the year to March 31.

Turnover increased by 30 per cent to £244.2m (£209.3m). This reflected a £30.7m first time contribution from US Biochemical acquired last April, offset by a £23.8m reduction in turnover from the Clinical Reagents business transferred to Eastman Kodak.

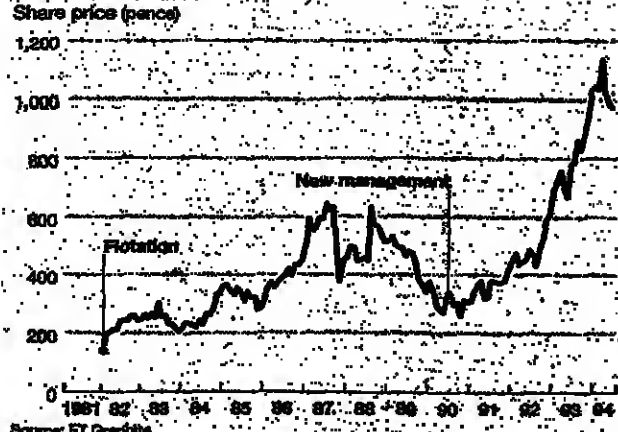
Earnings per share, reflecting the 4.9m shares issued to acquire USB, grew by 55 per cent to 47p, up from 30.4p the previous year. A recommended final dividend of 11.1p (9.5p) makes a total for the year of 15.5p, up 15 per cent. The shares closed 83p higher at 971p.

Trading profits increased by 54 per cent to £53.4m (£41.1m), with USB accounting for £4.9m of the increase. Underlying turnover and trading profits both increased by 10 per cent. After a 28 per cent increase in research and development spending of £20.1m (£15.5m), operating profits were 72 per cent higher at £43.3m (£25.2m), including a £3.1m contribution from USB and a net £13.2m year-on-year gain from exchange rate movements. Underlying operating profit growth at constant exchange rates was 7 per cent.

Life sciences, the largest

## Amersham

Share price (pence)



Source: FT Graphix

division, which sells reagents to medical and pharmaceutical research establishments and now includes USB, returned to real profit growth.

It generated operating profits of £31.2m (£19.1m) on turnover 49 per cent higher at £147.6m.

The healthcare division boosted turnover by 28 per cent to £119.3m and more than doubled operating profits to £9.4m (£3.9m).

The group's share of associated undertakings increased to £800,000 (£200,000). Net interest costs of £400,000 compared with net receipts of £900,000. Despite spending £10.6m in cash on the USB acquisition the group ended March with net cash of £7.7m compared with £2.6m a year earlier.

## COMMENT

Amersham's performance, and its management which has rejuvenated the business, continues to impress. The underlying profit growth remains solid and last year's exchange rate gains helped fund the substantial increase in R&D spend and new branded product launches which will fuel its future performance. Much more modest currency gains are expected this year but pre-tax profits of £51m look possible, producing earnings of about 65p a share.

The stock is trading on a forward multiple of 17.6, but could still go higher. In the meantime dividend cover has been restored to three times, and future dividend growth should be more in line with earnings.

## Maxmin to get £1.2m from L Ashley

By Peggy Hollinger

Mr Jim Maxmin, the former chief executive of Laura Ashley, is to receive a £1.2m pay-off following his abrupt departure from the fashion retailer which he is widely credited with reviving.

The news of Mr Maxmin's compensation package, which includes two years' salary and pension payments, was accompanied by the departure from the board of his protégé, Ms Denise Lincoln, the human resources director.

Further management changes are likely to be announced within the next few weeks, although it is not clear whether Mr Maxmin will be replaced. Mr Hugh Baker, who lives in the US and receives expenses of £1,000 a day, stepped up from non-executive to executive chairman following his departure.

Mr Maxmin left Laura Ashley in April after what was described as a disagreement over investment priorities. It is understood that Mr Maxmin was pushing for greater investment in human resources, while the non-executives wanted to focus on retailing.

The non-executives include Mr Takuya Okada of Acom, the Japanese group which bailed out Laura Ashley with a £30m cash injection in 1990.

The non-executives were also thought to have been unhappy with Laura Ashley's performance in the US, where Mr Maxmin frankly admits the company failed to get to grips with the problems. However, it is widely acknowledged that the US side is back on track.

Mr Maxmin was on a two-year rolling contract, with a salary of £399,000 or £590,000 in the last annual report. He also has options on 2m shares at 70p and 90p which he will retain.

Two days after announcing Mr Maxmin's departure, the group reported pre-tax profits of £2m on sales of £300m.

Ms Lincoln is expected to receive a compensation package of about £200,000. She was appointed to the board in 1992.

## Boost for National Grid flotation

By Michael Smith

National Grid, operator of the high voltage power transmission system in England and Wales, yesterday fuelled expectations of a flotation next year when it increased dividends by 15.3 per cent against expectations of 10 per cent.

The company, which is owned by the regional electricity companies, announced pre-tax profits for the year to March 31 in line with forecast at £579.5m, against £538.2m.

However a lower than expected tax charge enabled the company to pay a final dividend of £2.082 making a total for the year of £2.982. It said the dividend rise was in line with the improvement in after tax earnings.

The profits growth was aided by a 9.5 per cent drop in staff numbers which stood at 4,682 at the year end, excluding those employed by the Energis telecommunications subsidiary. That compares with 6,537 in March 1991.

Energis accounted for £90m of the company's capital expenditure of £351m (£389m). The main transmission business accounted for £243m.

Some 1,500km of fibre optic

cable has already been installed for Energis which is due to start services later this year.

Total group turnover increased marginally from £1.39bn to £1.43bn, reflecting income from increased new connections and higher sales in the ancillary services business.

At the end of the year under-recovery of revenues against the regulated maximum amount was about £14m. The company is allowed to recover the shortfall through adjustments to charges in future years.

Net debt decreased by £116.4m to £323m, leading to a fall in the net debt to equity ratio from 31 per cent to 19 per cent.

The company's performance will reinforce the City's belief that the regulatory regime on prices, in place until 1997, is relatively benign.

Nonetheless it provides a strong platform for the race to stage a flotation. A disposal of at least 25 per cent of the company is likely next year, possibly in the spring.

Analysts believe the company is worth between £4bn and £5bn.

## Powerscreen declines to £24.6m

By Simon Davies

Powerscreen International, the Northern Ireland-based manufacturer of screening and stone crushing equipment, yesterday announced a marginal decline in annual pre-tax profits due to the impact of disposals in early 1993.

The company recorded a strong improvement in sales from the UK market and east Asia, primarily Japan resulting in group turnover of £122.5m (£108.3m). Mr Shay McKenna, chief executive, said order books for the first two months of the year were "very healthy".

Pre-tax profits for the year to end-March slipped from £25.3m to £24.6m due to the loss of contributions from Guzeir, the US subsidiary.

However, Powerscreen's three core businesses all showed growth, and operating profits from continuing operations grew by 11 per cent to £23.5m.

The company is also increasing its dividend by 11 per cent to 7.3p, with a proposed final of 8.3p. Earnings per share rose to 22.4p (20.7p) due to a smaller tax charge resulting from lower US earnings.

The share price closed 6p higher at 255p. The UK and Ireland now account for 35 per cent of sales, with North America accounting for 26 per cent and Europe for 30 per cent. Screening, responsible for about half of turnover, experienced a 22 per cent increase in sales, aided by an upswing in the UK construction market and increased infrastructure spending in the US and east Asia.

Simplicity Engineering and Lindlow-Saylor, two US businesses acquired in February, made a £2m contribution to sales and are already operating profitably. The crushing and recycling products division recorded a 10 per cent sales increase, with its performance hampered by a decline in its recession-hit European markets.

Brown Lenox doubled machine sales to the UK and Ireland and the materials handling division, primarily its Matbro subsidiary, saw a 62 per cent increase in sales, having substantially broadened its product range and built up an export dealer network.

After eight consecutive years of profits growth Powerscreen has finally recorded a decline, but this merely reflected business disposals. Overall, the results were positive, with profit margins maintained. Profits should hit £25m this year, putting the shares on a p/e of 10.4, and it should remain on a strong growth track for the following year. Powerscreen has switched to one of the big four accountancy firms and has increased disclosure, which should win over some City sceptics. After their recent decline, the shares appear to offer value.

## Measurement setback for Staveley

By Caroline Southey

Staveley Industries, the measurement and mechanical engineering company which also owns British Salt, suffered a 65 per cent fall in pre-tax profits in the year to April 2 after a poor performance and a £10m reorganisation charge in its measurement division.

However, the total dividend will be held at 8.5p via an unchanged final of 8.2p.

Pre-tax profits fell from £24.4m to £3.6m on turnover down 2 per cent at £338.9m (£344.9m). Operating profits dipped 19 per cent to £20.2m.

"We have had a difficult year, but we believe the major problems have been tackled. I feel we have good prospects for growth - the key is to bring in the benefits of the reorganisation," said Mr Roy Hitchens, chief executive.

The company's minerals division, which supplies more than half of the UK salt market, lifted operating profits from £12.2m to £13m.

However, the measurement division performed poorly with operating profits down to £5.1m (£8.4m). The reorganisation includes rationalising Chronos Richardson, the systems division, by creating a single global operation.

Its plants in Germany and the US will be closed and manufacturing transferred to Nottingham where the company will use a network of subcontractors. Mr Hitchens said this was to exploit UK labour rates which were 50 per cent lower than Germany's.

The mechanical and electrical services side suffered a 9 per cent drop in profits to £4m. Earnings per share fell 79 per cent to 3.4p, but excluding reorganisation and exceptional costs they dropped 14 per cent to 13.9p (16.1p).

Staveley's latest reorganisation plan faces a credibility problem. Several earlier attempts to overhaul the measurement

division have failed over the past six years. But the new management team deserves the benefit of the doubt. If the division's shake up works, growth could be enhanced by acquisitions in niche markets. The minerals division remains safe and cash-generative. The mechanical and electrical services division should perform better next year as the upturn in construction takes hold. Pre-tax profits of £25m look possible this year for earnings of 16.4p. On a closing price yesterday of 209p, down 1/2p, the shares are on prospective p/e of 12.7. That is good value if the management makes good on their promises.

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## Gt Portland plans 20% dividend cut

Great Portland Estates, a leading property company which has diversified from its traditional central London base in recent years, plans to cut its dividend for the first time in its 35-year history.

A recommended final payment of 5.3p will make a total of 8p, against 10p a year earlier. The 20 per cent cut had been flagged and the shares closed down only 7p at 196p.

The cut was proposed because the redevelopment of one property and sale of others

had caused a 96m reduction in gross rental income. Overall, rental income was flat at £87.3m.

The company said, however, it was likely to increase the dividend again in the current year.

Pre-tax profits for the year to end-March fell from £34.04m to £25.4m but would have been flat but for a £9.7m charge for renegotiating a syndicated loan and associated swap arrangement.

Earnings per share after the charge and a higher tax rate

fell to 5.5p, against 11.3p adjusted for last June's rights issue.

Net asset value rose 21 per cent, from 172p to 209p. The company's investment portfolio was valued at March 31 at £1.04bn, representing, after capital expenditure, an increase of 14 per cent and a running yield of 8.75 per cent.

In the latest year, central London accounted for 57 per cent of the portfolio against 84 per cent in 1989, and retail space for 33 per cent (13 per cent).

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## BUILDING FOR THE FUTURE

"Our results reflect continued progress. The major restructuring of our regulated business will bring significant long term benefits."

Bernard Henderson, C.B.E., Chairman, Anglian Water



Anglian Water

Preliminary Results for the year ended 31 March 1994

Turnover	£687.9m	up	18.0%
Profit before tax (before restructuring)	£192.2m	up	3.7%
Earnings per share:			
- before restructuring	59.2p	up	5.0%
- after restructuring	39.0p	down	30.9%
Full Year Dividend	22.8p per share	up	8.1%

The 1994 Annual Report and Financial Statements will be sent to shareholders on 1 July 1994. Copies may be obtained from the Group Company Secretary, Anglian Water Plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE18 6NZ.

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## COMPANY NEWS: UK

# Allied Colloids ahead after better second half

By Maggie Urry

A "markedly better" second half enabled Allied Colloids, the specialty chemicals group, to increase full year profits by 3.5 per cent from £44.4m to £45.8m, in spite of a 15 per cent drop in interim profits. The group forecast a "better growth in profits" in the current year.

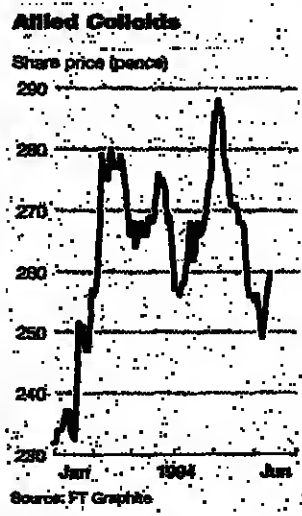
Group margins, which had been depressed in the first half, bounced back. After suffering from adverse exchange rates in the first half, currencies contributed about £3m to £4m in the second, and a further £1m profit came from the group's captive insurance subsidiary, set up after the fire at one group plant in 1992, as no claims were made.

Margins also improved through tighter cost control, higher prices and more stable raw material prices and greater efficiencies. Mr Gordon Senior, finance director, said:

Group sales in the year to April 2 were up 10.8 per cent to £328.5m. Its customers are in a wide range of industries around the world, with many seeing signs of a recovery.

Only in the UK, which accounts for 13 per cent of total sales, were sales not ahead, with the sharpest growth reported from Asia, and "substantial increases" in continental Europe and North America.

The company said all the



Source: FT Graphix

main product divisions recorded increased sales, with pollution control overhauling paper products as the largest. Operating profits were 5.4 per cent higher at £48.7m (£44.3m) giving a margin of 14.3 per cent for the year, down from the 1993 figure of 15 per cent, but well up from the first half's 12.1 per cent.

There was a £258,000 loss from the new joint venture with Courtauld, representing start-up costs, and the net interest charge was £498,000 (credit £124,000). Net debt at the year end was less than £1m, but the charge reflected lower rates on the cash bal-

ances of £24.1m while the borrowings are at fixed rates. A tax rate of 28.5 per cent (33.2 per cent) reflected higher capital expenditure of £26.7m compared to a depreciation charge of £14m, and a tax refund in Germany. The rate is expected to rise to about 30 per cent in the current year.

That left earnings per share up 8.6 per cent to 12.45p, and a proposed final dividend of 3.72p (3.38p) gives a total payment of 4.72p (4.29p) - up 10 per cent.

A one-for-one scrip is planned.

## COMMENT

Allied Colloids has long been a favoured stock and was quickly forgiven its interim profit blip. After these figures, forecasts for the current year were being increased with top estimates now up to £27m pre-tax, and the shares rose 11p to 260p. Those numbers depend on another good sales increase and a full year of margins at the level of the second half, which may be a bit much to hope for. However, the high continuing level of capital spending, expected at £35m this year, should keep profits moving ahead in coming years. On more conservative estimates of £25m, the prospective p/e is 18.4. That looks on the high side, but may not stop the shares outperforming in the longer term.

# A consortium with some political clout

Breakaway union casts its eyes on the British Coal assets. Michael Smith reports

Mr Arthur Scargill must have viewed events at the Union of Democratic Mineworkers in the last year or so with some pleasure.

The president of the National Union of Mineworkers feels the same sort of contempt for the UDM, a breakaway from his union, as he does for the forthcoming privatisation of the coal industry.

So the UDM's early difficulties over the privatisation process will have provided him with a few wry smiles.

Last year it announced it would be bidding for British Coal assets with companies including East Midlands Electricity and Jim Walter Resources, of the US, only to find its prospective partners drop out later.

It must be hoping its latest liaison with Coal Investments, the mining company led by Mr Malcolm Edwards, a former British Coal director - is more solidly based.

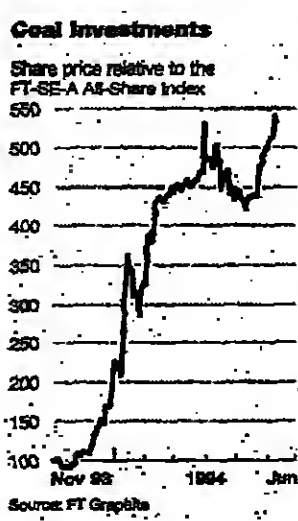
Mr Edwards and the UDM announced last month they had formed a consortium to consider bidding for British Coal assets which are being sold later this year.

They have applied to NM Rothschild, the merchant bank advising the government on privatisation, to "pre-qualify" to bid in three English regions and are thought to have been successful.

Coal Investments is looking at the possibilities in south Wales alone and in Scotland with another consortium.

For the UDM, the attractions of Coal Investments are obvious enough.

Mr Edwards has his critics, among them Mr Neil Clarke, chairman of British Coal who sacked him as marketing director two years ago after a series of clashes. And although former colleagues at British Coal admire and like Edwards for his intellect and



Source: FT Graphix

humour, some agree with Mr Clarke's assessment that he was too outspoken and individualistic.

"He had his own agenda and sometimes he did not confide in us what it was," complained

one. "He was not a team player."

Others say that as British Coal's commercial director in 1990 he should have negotiated a five year rather than three year deal with the generators but at lower prices.

This would have secured a larger market for the industry, even if only temporarily. Mr Edwards says he would have been in favour of such a deal but that in practical terms it was never on offer.

Whatever the merits of the 1990 deal, few dispute Mr

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Edwards' enthusiasm for coal and his ability to motivate employees he raises and the investors whose funds are needed to develop the industry.

Since Mr Edwards reversed Coal Investments into Geveer, Britain's oldest quoted mining company, last October, shares in the enlarged company have risen more than sevenfold.

That makes Coal Investments the stock market's best performer in the period; no asset achievement for a company whose main selling point is its plans to reopen up to five pits rejected as unprofitable by British Coal. Only one is so far in full production.

In spite of doubts among other coal companies about potential markets, Mr Edwards says there is no problem selling coal. "I wish I had more," he says. "The market is screaming for it."

However, he is cautious about the possibilities of bidding for the five regional packages which include British Coal's opencast sites and 16 operating collieries.

Mr Edwards believes the five regions may be a riskier investment than the pits he is already operating under leasing and licensing arrangements because of problems over liabilities.

"We need to see what is on offer and if they can be made to work," he says, adding that bids are by no means certain.

The UDM, led by Mr Neal Greaves, may be more enthusiastic. Although it has kept proportionally far more of its members than the NUM since 1985, it now has less than 4,000 still working, against a peak of more than 26,000. It is seeking a more substantial role.

However, the union has yet to show that it can transform itself from a traditional union to a more business-oriented organisation.

Although the Coal Investments/UDM consortium has the option of tendering for the three English regions of Brit-

ish Coal, the chances of it bidding successfully for all of them are remote.

Developing them would involve an outlay of several hundred millions of pounds, including the tender prices. Mr Edwards may have worked wonders on the stock market but his company is still valued at less than £5m. And with most of its mines yet to produce coal in significant quantities, the company is still largely untested.

In addition, any consortium involving the UDM would have to think long and hard about launching a bid for the central north region where Mr Scargill's NUM is predominant.

The consortium is considered a much more likely bidder for central south, where virtually all miners are members of the UDM.

Previous articles in this series appeared on May 30, June 1, June 2, June 3, and June 7. Further articles will appear later.

Malcolm Edwards: no problem selling coal. "I wish I had more"

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## NEW ZEALAND

Wednesday June 8 1994

## Disillusion opens the door to minor parties

Impatience with some aspects of the social overhaul of recent years was a factor in the people's vote to change the electoral system, writes Nikki Tait.

It is hard not to notice the tensions that pervade modern New Zealand. On the one hand, the country wears all the trappings of a successful, market-oriented society. Wellington, Auckland and other main cities are well-served by stylish restaurants and smart boutiques. Warehouses are being converted to "Manhattan-style" apartments. Cellular phones are everywhere.

As Mr Roderick Deane, chief executive at NZ Telecom, the country's largest quoted company, puts it: "New Zealand, in a sense, has rejoined the rest of the world over the past decade."

On the other hand, memories of a very different social structure, which offered New Zealanders "cradle-to-grave" protection under a universal welfare system, linger on. It is 10 years since the nation embarked on radical economic reform, first under a Labour government, which deregulated financial markets and began to dismantle the extensive state sector, and then under the National party, which extended the "free market" philosophy to the industrial relations arena and the welfare system.

But the implications of this social overhaul are still permeating the lives of ordinary New Zealanders. As a result, discontent with some of the less palatable aspects of the new order - especially in the welfare and employment areas - is highly visible.

In recent months, for example, attempts to alter work practices have brought a rash of strikes, notably among recent privatisation candidates, such as NZ Rail and NZ Telecom. Pensioners have marched in protest against asset-testing for long-stay hospital patients. Student rebellion has simmered over a threatened increase in tertiary education fees.

On the political front, there has already been a backlash. In a referendum last November, a disillusioned electorate, unable to spot

much difference between the policies of the two biggest parties, voted to change the nation's electoral system. Out went the British-style "first past the post" (FPP) method of electing constituency-based MPs to the single-chamber parliament. In, for all future elections, came a "mixed member proportional" (MMP) system, a form of proportional representation modelled loosely on the German system.

(En route, in the accompanying general election held under the existing FPP rules, voters also returned a hung parliament. However, this situation was resolved fairly speedily when a recount in marginal seats gave the ruling National Party a slender majority).

The implications of a vote for MMP were clear. The new system is likely to give minor parties a much greater voice in parliament, and this encourages coalition government. In addition, because only half the MPs sitting in the enlarged 120-member parliament will represent specific constituencies, with the remainder being drafted in from party lists, MMP will probably mean that politicians' loyalty to the two major parties diminishes.

While the practical adjustments necessary to conduct an MMP election will not be complete until next spring, there are already signs that the number of "serious" minor parties is about to proliferate. Going into the November general election, voters had two main choices outside Labour and National:

Mr Jim Anderton's Alliance, which is a coalition of five left-leaning minor parties, and New Zealand First, headed by Mr Winston Peters, a former National Party cabinet minister.

Now there is talk of a breakaway centre-left party, possibly headed by Mike Moore, the former Labour party leader. On the right of the political spectrum, some observers suggest that the National party could splinter into about three groupings. The Association of Consumers and Taxpayers, a free-market ginger group formed by Sir

On the inflation front, New Zealand now has the advantage of its much-vaunted Reserve Bank Act, which formally insulates the central monetary authority from political influence. It is merely required to ensure that inflation stays within a publicly-stated band, currently zero to 2 per cent.

The international financial community's approval for New Zealand's recent performance has been clear from the foreign investment data. Direct net investment inflow in the year to end-March reached NZ\$4.7bn, more than twice the level of the previous 12 months. Anecdotally, there are indications that the country has been winning corporate dollars at the expense of Australia, its larger neighbour, whose own reform process has been much more measured.

It is true that a few question-marks persist. Some commentators would like to see quicker progress in reducing the heavy external debt burden and the current account deficit. The recent collapse of the large Fortex meat-processing business - which had been hailed as a prize example of a revitalised, efficient company - also cast an ominous shadow. It can be argued that this was efficient rationalisation in an industry with surplus capacity, but some observers saw Fortex as a symptom of inherent instability in a key sector, and of serious under-capitalisation.

Many commentators also think the Reserve Bank, whose independence was guaranteed just as worldwide recession began, has yet to face the challenge of maintaining a low price-increase regime when international inflationary conditions are less clement. But the bigger, and more speculative, clouds that threaten this sunny economic outlook are political. Advocates of the economic reforms scent two specific dangers: a change in Reserve Bank targets, and a big change/repal of the Employment Contracts Act (ECA), the legislation which deregulated labour markets but was criticised subsequently by the International Labour Organisation in Geneva. Amendments to the latter, it is argued, could dent business confidence immediately and, in the longer-term, affect labour costs and productivity.

On both scores, changes are already being mooted. All three parties, apart from the National, are talking of revisions to the ECA, while Labour has suggested a widening of the Reserve Bank's inflation target range.

If changes come, the test may be whether the variations are largely cosmetic, or whether they represent a fundamental shift. Finally, it is worth noting that Mr Bolger's National government seems to have adopted a less rigid approach since the last election. Much of the reform process had, admittedly, been completed. Nevertheless, in recent months, the government has introduced a minimum youth wage, held off on further state housing rent increases and set up a "taskforce" to look at unemployment issues.

Whether this softer approach, coupled with the general economic recovery, will allay the electorate's concerns remains to be seen. As Anne Knowles, deputy chief executive of the New Zealand Employers Federation, says: "MMP has great potential to be disruptive, or it has great potential to be stabilising - because no one can agree to do anything." New Zealanders can only wait to find out.

## ALSO IN THIS 3-PAGE SURVEY

Politics: the people vote for proportional representation  
Agriculture: surviving freak storms and a rising Kiwi dollar  
Privatisation: it's not as simple as it once appeared  
Across the Tasman: rivalry with Australia is less intense  
Tourism: economic recovery is bringing in more visitors

Roger Douglas, the former Labour finance minister, could also emerge as a political force.

The big question is whether this fascinating but fluid age coalition government. In addition, because only half the

At macroeconomic level, there is no denying New Zealand's recent progress. Growth in gross domestic product reached 4.6 per cent in calendar 1993, and many forecasts suggest that the year-on-year figure could top 5 per cent this year.

Unemployment, while still high, has eased. The government is widely tipped to produce a small financial surplus for 1993-4 when it unveils its annual budget in the next few weeks.

when it unveils its annual budget in the next few weeks.

of proportional representation, will produce. But if a coalition government with a more "left-leaning" bent were to come into office, two possible institutional changes could affect New Zealand's inflation record - or, at least, cause financial markets to fear such an impact.

The first would be a repeal of - or major amendments to - the 1991 Employment Contracts Act (ECA), NZ's controversial labour market legislation which opened the way for individual employee contracts, overthrowing the previous centralised, award-based system. The second would be any tinkering with the Reserve Bank targets.

At present, it should be stressed, these doubts do not appear to weigh heavily in investors' minds. Although there was some temporary upheaval to both share and bond markets and to the NZ dollar after the November election result, the dust settled quickly. And while some analysts scent a slight upturn in inflationary pressures, which could push the inflation rate closer to the upper end of the 0-2 per cent range, New Zealand's 10-year bond rates are well below those of Australia and roughly in line with those of the US.

Moreover, Mr Donald Brash, the Reserve Bank governor, is quick to stress that the Labour party's suggested amendment to the inflation target - from zero to two, to minus one to three - could have a limited effect.

"That quite explicitly leaves the median unchanged, so it isn't obvious that one would run monetary policy very differently," he comments. "If the median of the target remains at one, which our best understanding of what price stability is, allowing for biases in the [consumer prices] index, then the debate about whether its 1 per cent either side of 1, or 2 per cent, is to some extent a debate about what excuses are allowed for in the contract."

By this, he means external price shocks - a hike in energy prices, say - or a temporary domestically-induced increase through a rise in indirect taxes, for example. As Mr Brash points out, "It's a pretty technical argument." But whether the markets would interpret any widening of the target range in such a kindly light, remains to be seen.

Again, with the ECA, it is hard to anticipate the impact of any changes, without seeing details of the alterations proposed. Groups like the New

Nikki Tait reviews the economy

## Business more confident than for 22 years

Taken at face-value, the New Zealand economy is going great guns. Growth is reckoned to have reached 4.6 per cent in 1993, one of the fastest rates clocked up by any western economy - and nicely exceeding the 4 per cent registered by Australia, the country's nearest neighbour and largest trading partner.

Economic activity in the final quarter of 1993 alone was estimated to have been 5.1 per cent higher than in the same three months a year earlier. Most analysts expect some further progress, perhaps taking the year-on-year growth rate to over 5 per cent later in 1994, and then several years of sustainable growth at around 3.5 per cent.

Business confidence, according to the New Zealand Institute of Economic Research, is at its highest since 1972, with a net 64 per cent of companies questioned in the latest April survey expecting an improvement in the general business situation over the next six months.

Even unemployment, a more problematic marker, has shown some improvement recently. It remains painfully high at around 9.1 per cent, but has at least fallen fairly sharply from rates of over 11 per cent seen in early-1992.

Finally, New Zealand has low inflation locked in for the immediate future by the Reserve Bank of New Zealand Act, which guarantees the bank's independence from political machinations, and requires it to administer monetary policy to achieve a specified inflation target - currently from zero to 2 per cent.

While nobody quibbles about this rosy short-term situation, opinions become more divided when pundits are required to look ahead. On the minus side, there are worries stemming from New Zealand's fluid political situation, and from some nagging economic question-marks. On the plus side, there could be some significant bullish factors influencing the economy in the medium term - but least, the consequences flowing from the recent conclusion of the Uruguay Round in the GATT negotiations late last year.

Most of the pessimists' anxieties centre on the external accounts. A current account deficit of NZ\$363m in the final quarter of 1993 took the figure for the calendar year to NZ\$1.65bn - some NZ\$22m worse than in 1992. This means that the current account deficit is running at around 2 per cent of gross domestic product, a number which the Reserve Bank, for one, thinks will persist for the next few years.

Combined with New Zealand's heavy, lingering net external debt, the lack of speedy improvement on this score causes some concern. Last month, for example, Standard & Poor's decided against an upgrading of New Zealand's "AA-" foreign currency debt rating. "Good news on the growth, unemployment and fiscal fronts does not, of itself, constitute a case for re-rating the country," commented the ratings agency.

In New Zealand's case, much depends upon progress in improving the country's external accounts beyond the

improvement already factored into the current rating. New Zealand's current account deficit and external accounts have only slowly improved in recent years. Most notably, the country's net external debt is still currently of the order of 175 per cent of exports, only fractionally down from the 180 per cent figure at the time of the last downgrade (January 1990).

A second, and much more speculative worry, is the political one. It is impossible to predict that this stage what kind of government the new electoral system, based on a form

## KEY FACTS

Area	270,534 sq km
Population	3.5 million (1993 estimate)
Head of state	Queen Elizabeth II, represented by a governor-general
Currency	New Zealand Dollar (NZ\$)
Average exchange rate	1993 US\$1=NZ\$1.8495
	May 28 1994 US\$1=NZ\$1.6995

## ECONOMIC INDICATORS

	1993	Latest
Total GDP (US\$bn)	42.8	n.a.
Real GDP growth (%)	4.6	5.0*
GDP per capita (US\$)	12,306	n.a.
Components of GDP (1992/93 %):		
Private Consumption	61.4	
Total Investment	19.4	
Government Consumption	16.1	n.a.
Exports	30.8	
Imports	-28.6	
Consumer prices (% change pa)	1.3	1.3
Unemployment (% of lab force)	9.2	8.9
Reserves minus gold (US\$bn)	3.3	4.1†
3 month money (% avg)	6.3	5.8‡
FT-A index (% change over year)	-46.5	-2.5**
TRADE:		
Current account balance (US\$bn)	-0.65	-0.11
Exports (US\$bn)	10.54	n.a.
Imports (US\$bn)	8.92	n.a.
Trade balance (US\$bn)	1.62	n.a.
Main trading partners (1993, % by value):	Exports	Imports
Australia	19.9	21.3
Japan	14.6	16.2
US	11.6	17.8
UK	6.1	5.8

\* 1994 figures (EU estimates for 1994)

† Reserve Bank of New Zealand forecast.

‡ February 1994

§ May 26 1994

\*\* % change from January 1, 1994 to May 26, 1994.

Source: IMF, Datastream, Economist Intelligence Unit

Continued on next page

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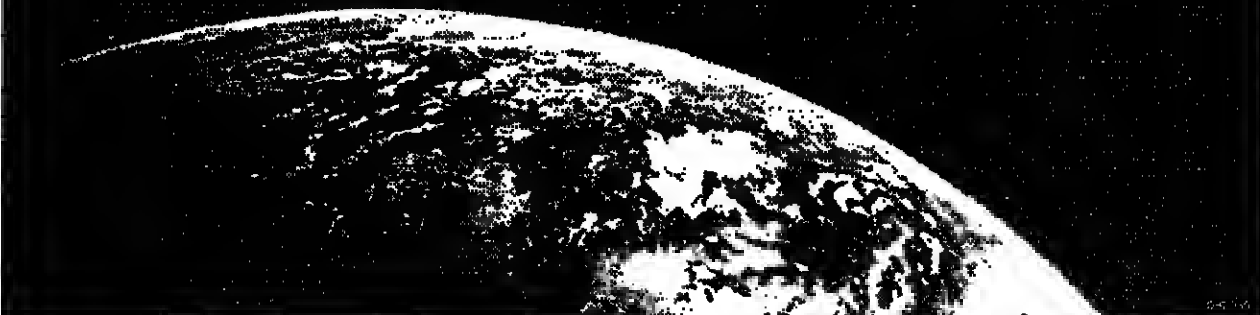
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## NEW ZEALAND 2

Politics: there will be no more first-past-the post parliamentary elections. Nikki Tait considers the implications

## Thoughtful calm follows the upheaval

Winds of change are blowing through New Zealand politics. The question is: what sort of landscape will remain when they have died down?

The upheavals began on November 6, when voters not only went to the polls in a general election, but were also asked, via a separate referendum, to choose an electoral system to be used in future elections.

Both results were surprising. The 1993 election returned a hung parliament - at least, until a recount in marginal seats resolved the issue, giving the ruling National party a one-seat majority (turned into a two-seat majority when a Labour MP agreed to act as Speaker).

More fundamentally, however, voters threw out NZ's British-style "first-past-the-post" method of electing members to its single-chamber parliament. Instead, the electorate delivered a clear vote in favour of a "mixed member proportional" system, a form of proportional representation which has parallels with certain European electoral arrangements.

Under MMP, the current 99 seats in the NZ parliament will be enlarged to about 120, but only half of these will be occupied by members representing specific constituencies. Instead, voters will have two votes - one for their constituency MP, and one of their preferred political party. The results of the latter vote will determine how many seats each party has in parliament, with the necessary number of MPs being drafted in from the party lists to ensure that each party's overall parliamentary tally corresponds to this decision.

The vote for MMP was essentially a protest. New Zealand has undergone a decade of profound, and often painful, economic reform at the hands of both its major political parties. The Labour government began the process in the mid-1980s, deregulating financial markets and privatising or corporatising government-owned businesses. National, which swept to power in 1990, continued the process, freeing up labour markets and making major changes to the welfare system.

Going into last November's election, then, many voters saw little to distinguish the

policies promulgated by the two parties, and blamed both for the less palatable aspects of the reform process, such as high unemployment, a rising crime rate, visible evidence of poverty on city streets. By choosing MMP, they endorsed a system which seemed more likely to give minor parties a meaningful voice in parliament and encourage coalition government.

For example, the Alliance party, a coalition of left-leaning minor parties, could reasonably expect about 20 seats if it simply repeated its 1993 election performance. It attracted more than 18 per cent of the popular vote, but, under the old FPP system, secured only two parliamentary seats.

But while a decision has been made as to what type of electoral system New Zealand will use in future, the practical implications - such as the redrawing of constituency boundaries and the drafting of party lists - are taking longer to sort out.

As a result, New Zealand's political scene is strangely becalmed. Both Labour and National conducted internal personnel changes in the wake of the last election. In Labour's case, the changes started at the top with the ousting of Mike Moore as party leader, while National shed its hardline finance minister, Ruth Richardson. But since then, while rumours of coalition possi-

**The repercussions of the MMP vote do not provide the easiest background against which to govern, and Mr Bolger's National party has been taking an unprovocative, some say conciliatory, tack**

ties and new parties abound, no one seems anxious to rock the boat too violently until a fresh election under the new rules is technically feasible.

The few MMP-related matters resolved to date have rarely escaped controversy. In late April, for example, the re-registration of Maori voters was completed, but the out-

come was to lift the number of Maori seats from four to just five. This contrasted with some expectations of up to 11 seats. Protests from Maori leaders, who claimed that the process had been under-published, followed, as did calls for alternative means of achieving more meaningful representation. Ideas range from a Maori parliament or Maori upper house, to the formation of a separate

they should attempt to persuade MPs who will lose their constituencies under MMP to remain within the party fold.

Mr Bolger, prime minister and leader of the National party, earlier this year took the bold step of publicly acknowledging that some defections were likely. "What we are seeing is an inevitable consequence of the role of MMP... There are fewer electorate seats available, and the MPs of the two major parties are going to see whether or not there is somewhere else they could find a position of some sort," he said.

"What we want is... their loyalty in terms of any coalition understanding or any accommodation that they will vote with the government on key issues."

The wisdom of this statement has been much debated: some observers see it as a canny acceptance of the inevitable, and believe that, by allowing defections, Mr Bolger will ease his list problems and



**Jim Bolger:** Prime minister and leader of the conservative National party, which narrowly retained power in the November 1993 election. A practising Catholic and North Island farmer, Bolger has never been a charismatic figure to the electorate. But he won plaudits for a statesmanlike performance on election night, and has demonstrated a speedy grasp of consensus politics. His recent decision to raise the "repatriation" issue has been more puzzling: opinion polls indicate that the majority of New Zealanders don't favour the introduction of an elected "presidential" head of state to replace the Governor-General, appointed by the Queen.

**Helen Clark:** Leader of the main opposition Labour party, who took over from Mike Moore shortly after November's election. A former lecturer in politics at Auckland University, she has the difficult task of articulating a centre-left policy which distinguishes Labour from National, yet eschews the more radical changes promised by the Alliance. Internal party warfare with her predecessor and his supporters does not make the job any easier. Her low popularity ratings have led to talk of further leadership changes - although such gossip has been strongly denied to date.

**Mike Moore:** The one-time builders' labourer was a member of the Lange government which initiated New Zealand's reforms in the mid-1980s. He became leader of the ruling Labour party in 1990 shortly before the October election, but his popularity failed to save Labour's fortunes then, or in 1993. Moore performed poorly in November's election night uncertainties, and was soon ousted by Helen Clark. Since then, he has hinted at the formation of a new centre-left party but, for the moment, remains within the Labour party. A passionate speaker, Moore still commands substantial loyalty among the electorate and within the party.

**Jim Anderson:** A former Labour party president who broke away to form the New Labour party in 1989, and then forged the Alliance, a coalition of five left-leaning minor parties, in 1991. The Alliance won more than 18 per cent of the popular vote in November, but only two seats. The grouping sometimes looks shaky, but Anderson has strong personal support. He has also handled a number of recent issues - such as the collapse of Fortis meat business, a major NZ employer - adroitly. The Alliance, which derives support from traditional Labour voters dissatisfied with the party's centrist leanings, looks likely to be the clear winner from the move to MMP.

**Winston Peters:** A former National party cabinet minister, Peters split to become an independent MP and then formed New Zealand First in July last year. Its policies going into the 1993 election were not well-detailed, but it is generally pro-business and has a slightly xenophobic tinge - witness Peters' recent urging for a tougher immigration policy. Often viewed as a maverick but charismatic politician, he has a reputation for revealing alleged scandals under parliamentary privilege. Earlier this year, his attention focused on financial abuses supposedly occurring in the Cook Islands and involving NZ businessmen and international figures.

**Sir Roger Douglas:** The former finance minister set New Zealand on the path to economic reform, but resigned after differences with the then-prime minister, David Lange. Sir Roger has now left the Labour party and is widely expected to turn his Association of Consumers and Taxpayers, a free-market group, into a political party. The ACT has support from the business community, and is generally in favour of a minimalist approach by government. Douglas recently published *Unfinished Business*, a 300-page dissertation on New Zealand's economic and political situation, suggesting that the reform process has further to go.

ther potential privatisations, like NZ Electricity and NZ Post, are also off the agenda. One remaining bone of contention is the Employment Contracts Act (ECA), the legis-

lation which effectively deregulated the labour market. When the current parliamentary session began last month, Labour, the Alliance and Mr Winston Peters' New Zealand First were all proposing changes - with Labour suggesting that a new employment council should draw up a replacement for the act, and that the ECA be repealed by 1995. However, the government was sticking to its guns, insisting that, if the matter was pushed to a confidence vote, it would win.

Many in the business community clearly hope that New Zealanders' rebellion peaked on November 6, and that, after a couple of years of solid economic growth, the electorate's disquiet will have ebbed. Whether the National party government survives that long is the key question. It is widely accepted that the mechanisms required to hold an MMP election will not be in place before next April or May. Mr Bolger has also indicated that he will seek to govern for the full three-year term, if members of his own party permit him to do so.

But some observers suspect that a showdown, in the form of a vote of confidence, is inevitable before then. "The hot money," suggests one Wellington-based economist, "is on August 1995." By then, it is argued, the MMP processes will be in place, and MPs, anxious to maximise personal positions, will have started to defect from the major parties. Why wait?

## The faces to watch, as the country moves to proportional representation

## Terry Hall sees agriculture benefiting from economic reform

## 'Few farmers mourn subsidies'

New Zealand's farmers are in a sunny, expansive mood. They have enjoyed the best summer in memory with just the right amount of sun and rain encouraging spirited grass growth. Cattle, sheep and deer are in excellent condition.

But no summer is perfect. A series of freak hailstorms devastated a fifth of the country's apple crop, and more rain than usual caused harvesting difficulties for South Island arable crops such as wheat and barley. Farming confidence remains

high despite a rising Kiwi dollar, which is eroding export earnings. Prices for lamb, sheep, beef and dairy products have all dropped over the past four months, although there has been an encouraging rise in wool incomes.

Farm profitability is expected to rise by 5 per cent this year, mainly due to higher lamb-kill and wool prices. However, historically, returns are low. Bob Davison, chief economist with the Meat and Wool Board's economic service, says that, while farmers' incomes are at the

highest level since 1984, they are only two thirds the level recorded in the 1970s and early 1980s.

Those were the years when farmers received generous taxpayer assistance with subsidies for fertiliser and other inputs to encourage production. In

1984, the reformist Labour government wiped these out, leading to seven years of difficulty as farmers were forced to adjust. The most indebted, and those with unproductive units, were forced to leave their farms.

Mr Davison says that few farmers want to return to the days of subsidies. They prefer the risks of the marketplace, believing it is the only sustainable long-term option. However, he says that all Kiwi farmers wish that other countries would follow the New Zealand lead.

Farmers are also benefiting from other reforms introduced from 1984. Low inflation has led to a sharp reduction in costs, as have falls in interest rates, and fuel and fertiliser costs.

There is optimism that the progressive relaxation of agricultural protection under the Gatt round from next year will eventually lead to greater benefits for local farmers. Most exporters expect a minor

improvement in prices from June next year, as a result of Gatt. There is optimism, too, about the long-term trend, given the Uruguay round's commitment to gradually lower agricultural barriers over the coming years.

Sharply rising land prices are also adding to farmer confidence. Investment levels are high, especially from city people, as farmers are changing hands at double and treble the price of five years ago.

Market forces have led to rapidly changing land-use patterns. High dairy prices over the past three years have led to a spate of conversions of former sheep and cattle country to dairying. Conversion costs are high, as dairy farms need ample water and reliable costly

electricity. Record land prices in traditional dairy provinces of Taranaki and the Waikato have encouraged many farmers to migrate to areas like Southland and Otago in the deep south, where land is cheaper. Other land is being converted

to forestry, while low venison prices have seen some prime land revert to dairying or horticultural use.

The rate of farm conversion to alternative uses has led to forecasts that suggest that, even if prices improve, New Zealand is unlikely to return to

the days when sheep farming was the mainstay of the agricultural industry, as there is no longer suitable land available. Vast tracts of the hilly high country have been converted to forestry, and it takes 25 to 30 years for a tree to reach maturity. Sheep numbers have dropped from 73m in 1984 to 50m today.

Sheep farming is hard work, and modern New Zealand farmers prefer to work their farms on their own. A third of a present day farm may now consist of radiata pine forests which

require minimal care. Unlike other farm endeavours, there are taxpayer incentives to encourage forestry.

The rise in wool prices since January has been cheering, as has the steady reduction in the stockpile. This stood at 653,000 bales in 1991 when the Wool Board decided it could no longer support the market. The magnitude of the stockpile initially depressed prices. But it should all have been sold by next year. The stockpile has

Continued on facing page

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## The economy

Continued from previous page

Zealand Employers' Federation remained firmly opposed to any tinkering with the act, warning of the impact on business confidence. Privately, however, some executives suggest that modest - and probably largely cosmetic - changes now might be acceptable, if this ensured the act's long-term survival.

In contrast to these minus points, there are a couple of potential factors which could play in New Zealand's favour. For a start, there is the apparent strength of the Australian economy - which grew at around 4 per cent in 1993 and is tipped to go higher still. Despite the two countries' traditional rivalry and common desire to develop links with Asia, Australia is still New Zealand's biggest trading partner, accounting for about one-fifth of exports. If Australian consumer spending continues to rebound, and government forecasts of a strong revival in business investment are cor-

rect, New Zealand manufacturers stand to benefit.

Finally, the impact of the Gatt talks should not be overlooked. Economists at ANZ Bank in Wellington, for example, have noted that the settlement should underpin agricultural commodity prices over the coming year, and improve market access. While they warn that no simplistic conclusions should be drawn from the GATT deal, and note that much depends on how the details of the agreement pan out, they also point out that almost two-thirds of New Zealand's exports are still agricultural-based.

"Consequently, New Zealand stands to benefit substantially from the successful Gatt outcome," they conclude. "It is suggested that the gains for New Zealand could include increases averaging 17 per cent in the prices our exporters receive for meat and dairy products. Optimistic estimates hint at gains for New Zealand totalling NZ\$1.5bn in additional export revenues."



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Privatisation has proved to be a political liability, writes Terry Hall

## Unpopular sales prompt caution

Political problems have slowed the National government's plans to sell further state assets in spite of the philosophical view of most of the cabinet that they should be in private hands.

The government this year stalled speculation that it was preparing New Zealand Post and Electricity for sale. It said it was honouring pre-election commitments not to sell them. However, intense behind-the-scenes pressure is being applied to sell off other assets, such as state radio and television, the former ministry of works, Workscorp, the government computer services company and parts of the property company Landcorp.

But conservative elements in the government are treading warily, and not all of these sales may happen, because of opposition from other political parties and the approach of the new "mixed member proportional" (MMP) electoral system. Opposition parties are irate that the issue has even arisen, given the "consensus" that is supposed to exist due to the government's narrow majority.

Privatisation has proved a political liability. It was a major factor in the defeat in 1993 of the reformist Labour government, after it had rushed the sale of some NZ\$1.2bn of state assets. On the campaign trail,

that year, Jim Bolger, the National leader, implied that there would be no further sales. So there was anger in some circles when the Bank of New Zealand was subsequently sold.

Since then, despite the presence of staunch advocates of privatisation in the cabinet, only one other major asset, New Zealand Rail, has been sold. The Bank of New Zealand went to the National Bank of Australia for NZ\$1.4bn, and New Zealand Railways to US railway company Wisconsin Central and a consortium of New Zealand investors for NZ\$330m.

Both sales proved unpopular with large sections of the public. Small shareholders in the Bank of New Zealand, who had no option but to sell, mounted a spirited protest campaign, saying it was being sold too cheaply. They now say that BNZ's subsequent strong profit recovery and reduction in bad-debt provisioning has proved them right.

There were similar complaints over the sale of the national railway network. Trade unionists embroiled in a bitter fight over plans

by the new US owners to cut staffing levels on the Cook Strait ferries, the vital link between the North and South islands - are making much of the fact that the new owner is introducing American work practices and seeking to cut jobs.

Polls suggest that most voters oppose selling "the family silver", though there is a widespread acknowledgement that it is vital to reduce the country's indebtedness.

Mr. Bolger said he had no philosophical objections to the government's selling the enterprises. "I do not believe that state ownership is an effective form of administration." He said there was public disquiet over the selling of public utilities. However, that did not extend to the sale of other assets such as the government computer company, GCS, which has been put on the market. Most interest appears to centre on

the sale of Television Two, the second state-owned television channel. A number of buyers have indicated their interest, including both major newspaper publishing chains, Independent Newspapers, which is controlled by News Corporation, and Wilson and Horton, publisher of the country's biggest daily, the New Zealand Herald. Television New Zealand is fighting doggedly to retain the ownership.

The 40-strong commercial radio network operated by Radio New Zealand is also expected to be sold. The major problem appears to centre on the future of public radio, the BBC-style network of the Concert Programme and national services broadcasting. The systems are linked, sharing news and current affairs staffs.

The government is expected shortly to offer some NZ\$2bn of low-interest mortgages owned by the Housing Corporation. Earlier it sold NZ\$600m-worth to a consortium led by merchant bank Fay Richwhite. Maurice Williamson, one of the

leading reformers in the cabinet, has been lobbying hard for the sale of the three major airports, in Auckland, Wellington and Christchurch, but has won no public support from his colleagues.

The most imminent sale is that of the computer company, GCS. This runs a major installation at Wanganui, in the North Island, which centralises all police files and other confidential information on individuals. The government says that GCS will not be sold until a code of practice protecting confidential information is in place.

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Supporters of privatisation look bleakly at the future. They feel that this is the last chance to sell many of the remaining state assets. It is believed New Zealand will have minority governments under the MMP political system; and this, they say, would be the hands of any minister of finance who might wish to sell any of the NZ\$2bn of assets that have been prepared for sale.

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### Government Property Services

NZ\$175 million  
Senior Debt Issue  
Lead Manager and  
Organising Broker

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### Housing Corporation of New Zealand

NZ\$900 million  
Prime Rate Mortgages  
Financial Advisor  
to Treasury

### BUTTLE & WILSON

### Trustbank New Zealand

NZ\$206 million  
Initial Public Offering  
Joint Organising Broker  
and Underwriter

### BUTTLE & WILSON

### Progressive Enterprises

NZ\$105 million  
Purchase of  
FAL New Zealand  
Financial Advisor

### BUTTLE & WILSON

### Brierley Finance

NZ\$170 million  
Subordinated  
Capital Notes  
Lead Manager and  
Organising Broker

### BUTTLE & WILSON

### Fletcher Challenge Industries

NZ\$150 million  
Subordinated  
Capital Notes  
Joint Lead Manager

### BUTTLE & WILSON

### Wang New Zealand

NZ\$15.1 million  
Initial Public Offering  
Organising Broker  
and Underwriter

### BUTTLE & WILSON

### Asian Pacific Breweries

NZ\$115 million  
Acquisition of  
DB Group Shares  
Financial Advisor

### BUTTLE & WILSON

The transactions listed above are indicative only of recent significant business successfully undertaken by Buttle & Wilson

Trade has spurred reciprocal investment flows with Australia

## The Tasman looks narrower

Recent trading successes, and indications of political goodwill, appear to be breaking down the often-intense and historic rivalry between New Zealand and its resource-rich neighbour Australia.

Australians are showing increasing interest in the economic and social programmes in New Zealand, although it is acknowledged that political realities make it unlikely that some of the tax and labour regulations will find their way into law there. Investment flows between the countries are growing rapidly, spurred by the trade pact. Closer Economic Relations (CER).

Since 1982, CER has been of immense importance to New Zealand. For decades Australia, with Britain, was the major supplier of manufactured goods to New Zealand.

In Australia's two-decade history it is in balance with the other by 12 per cent last year. New Zealanders are pressing Australia to further develop the agreement and move towards a fuller integration of the two economies. But there

was disappointment in May, when some Australian officials argued that "CER has gone about as far as it can." The Australians refuse to examine issues such as harmonising taxation, matching manufacturing standards, and freeing up mutual investment options.

After initial rapid progress, aviation reform also appears to have stalled. The agreement has allowed Air New Zealand to establish a "hub" in Brisbane, to service the Asian market. This has proved of immense benefit to the airline and created thousands of jobs in Queensland as Asian holidaymakers flock in.

However, Australians have been slow to use the "beyond rights" that they gained to New Zealand in the reciprocal aviation deal. New Zealand is anxious to see Ansett flying the Tasman Sea between the two countries.

Both countries seem to be ignoring one of the most delicate issues: rules of origin. New Zealand manufacturers operate in a largely tariff-free environment, and can buy raw materials, such as plastic, cheaply on the world market. However, Australia retains import protection for its own manufacturing goods. This situation appears to benefit New Zealand manufacturers in selling to Australia, as it keeps up the price of Australian inputs.

Rowland Croome, president of the New Zealand Manufacturers' Federation, says action on these issues is a priority and would further strengthen CER trade and economic ties. Behind Mr Croome's concern are statements by the Australian prime minister, Paul Keating, who, in a visit to Thailand last month, spoke of extending CER to the six Asean nations.

New Zealand officials are also keen to see freer trade between the two blocs. However, Mr Croome argues that to compete equably with the dynamic Asean countries, New Zealand and Australia must settle the remaining outstanding issues between them over CER.

Political differences became intense in the mid-1990s, over

defence, highlighted by New Zealand's withdrawal from ANZUS, the pact with Australia and the US. Since last year, relations have improved, following a state visit to New Zealand by Mr Keating, who appears to have developed an excellent relationship with the New Zealand prime minister, Jim Bolger.

In many areas, apart from trade, the ties are growing steadily stronger. Defence links appear to have improved, and there is close liaison on police and crime matters. However, the Australians continue to keep a close eye on New Zealand. There were grumbles in New Zealand after Australia's April budget: many people complained that it contained a tax incentive measure that was expressly aimed at encouraging companies to base their head offices and manufacturing facilities in Australia rather than New Zealand.

This followed moves to New Zealand by a string of companies, to take advantage of the lower tax, cost and wage structure. A major attraction was the Employment Contracts Act, which has introduced greater flexibility in wage bargaining but is labelled an anti-union measure in Australia.

Among companies moving to New Zealand, or expanding there, were Gillette, Unilever, Johnson & Johnson and Alcatel, which supplies wiring systems for the Australian car industry. All use New Zealand as a base to supply Australia and Asia.

A recent study by Trust Bank found that major companies were coming to New Zealand because of its low inflation. It found that costs were being held as industry developed flexibility, and said productivity of New Zealand industry had risen by 28 per cent in the five years to last December, using no more staff or overtime hours.

A number of New Zealand companies are expanding in Australia. They include Pacific Star, a subsidiary of Telecom New Zealand, which is a major supplier to telecommunications equipment to the Queens-

land government and larger companies; and the white-goods manufacturer Fisher and Paykel, which has built a large plant in Queensland.

The growth of sales to Australia has been a factor in the surge of optimism seen recently among New Zealand manufacturers. Business confidence is at its highest level for two decades, and the Manufacturers' Federation believes economic growth could touch 6 per cent by June, after years of running between zero and 2 per cent a year.

In the year to December 31, the strengthening New Zealand economy led to the creation of 42,000 jobs, of which 23,000 were full-time positions in manufacturing. Many more were created in allied industries that serve the manufacturing sector. The Statistics Department reported in March that employment in the manufacturing sector was up 9.7 per cent.

The strength in manufacturing is spreading through the economy, and the extra jobs and spending power is seen as a significant reason for the budget surplus that is expected this financial year.

Yet all is not going New Zealand's way. Australia, for example, is winning the trade war on the food front, where it appears to offer cheaper canned and frozen processed items. Against this, New Zealanders have done well in light engineering and steel and aluminium fabrication.

Gilbert Petersen, of the Manufacturers' Federation, says that, while there is a feeling of confidence in the sector, there is no great sense of security, with the knowledge that the Australians "could run rings around us if they wanted to", because their larger population leads to economies of scale.

It is widely believed that any advantages New Zealand manufacturers have gained are due to efficiencies learned the hard way, through surviving a protracted and deep recession. They will battle to keep them, and make the best possible use of the CER pact.

Terry Hall

Improved air links are helping tourism to take off

## Asia discovers the south

After many false starts, New Zealand's tourist industry believes it has a winning formula - a view reinforced by the rapidly rising number of visitors.

Even 150 years ago, settlers from Europe spotted the country's leisure potential. One relatively small country seemed to offer just about everything: hundreds of miles of warm, sandy beaches in the sub-tropical north, remarkable volcanic geysers, mountain-climbing, skiing, wilderness walks, ample fish and game hunting.

From the 1870s, tourist hotels began to appear in the most popular destinations, and later the government added its support.

Visitor numbers ebbed and flowed, distance always being a problem. Initially, only wealthy tourists from the US and Europe had the time for long sea voyages. Closer to home, as air links developed, Australians might enjoy visiting New Zealand, three hours away, for an annual skiing holiday.

Now, mass air travel is changing perceptions. New Zealand is today served by 24 international airlines that link it to most parts of the world. Tourist numbers are climbing, helped by the economic recovery. Between January and March, 400,000 visitors arrived, 17 per cent more than in the same period of last year.

March alone saw a 21 per cent increase (to 139,000) over the same month last year. Visitors from the UK represented the strongest growth (up 26 per cent), followed by the Netherlands (up 22 per cent). In the year to March 31, visitor numbers grew by 12 per cent, to 1,313,318, the strongest growth this decade.

Norman Geary, chairman of the New Zealand Tourism Board, says the recovery has

been startling. Between 1988 and 1991, annual arrivals had risen by an average of 8.8 per cent, compared with the world average growth rate of 6.2 per cent. But since 1992 visitor numbers have been growing by an average 10 per cent a year, substantially ahead of the world's average growth of 3.8 per cent projected for the 1990s by the World Tourism Organisation.

The industry is encouraged by the increase, because, for

much of the period, most of the countries from which visitors came - Australia, North America, Britain, Japan and Germany - were coping with recession. Mr Geary is confident that the industry's goal of 2m tourists a year by 2000 will be met.

Its strategy is one of sustained promotion in target countries, and a reasonable level of government support. Assisting the drive are independent operators, including Air New Zealand, which has extended its services to 18 of Asia during the past 18 months.

The South Korean market has developed strongly. Koreans' interest in New Zealand is high, because they have become one of the largest migrant groups; and in the year to March, 40,000 visited, compared with a few hundred in 1990.

Taiwanese numbers have also risen. Nearly 50,000 visited New Zealand in the year to March, up from 10,000 in 1991. The recession in Japan has impeded growth, although

done. More hotels must be built, involving substantial investment. Asian developers, especially from Singapore and Hong Kong, have invested heavily in the sector during the past three years, but have concentrated on buying existing hotels.

Despite new labour laws, which have substantially cut wages, hills, profitability remains low in the hotel industry. Mr Geary and others fear that, unless new hotels are built in Christchurch, Auckland and the major destination of Queenstown, tourist numbers will not increase - already it is often difficult to get a room.

Mr Geary believes improved profitability is essential if the industry's potential is to be maximised. He says government support is vital, and points out that foreign exchange earnings from visitors is 21 per cent ahead of 1991 levels, and that the industry is a major employer of labour.

Terry Hall

## Farmers' season of optimism

Continued from facing page

fallen to 120,000 tonnes.

The wool season began last July with low demand and prices averaging around NZ\$3.75 a kilo. However, prices have risen by around NZ\$1 since February, helped by stronger demand from Britain, which has emerged as the second biggest buyer. The UK increased its purchases by 41 per cent in the nine months to March.

China and Hong Kong remain the biggest buyers, taking New Zealand wool in a range of products from hand knitting to topcoat carpets.

In recent weeks, lamb prices have fallen in Europe, the main market. This has caused some concern to exporters as prices had been unusually buoyant for the previous 18 months. There is optimism that consumption will recover towards the end of the year.

Beef exporters have continued to struggle with protectionist measures in the major markets, Canada and the US, over the past year. However, some newer markets were developed in Asia, notably Korea, as well as in Mexico.

The strong New Zealand dollar, and intense competition from Europe and Australia on world markets, has depressed returns from dairying. The industry is confident that prices will improve markedly over the coming months. Even so, farmers are expected to receive a payout of NZ\$2.85 a kilo of milkfat this season, 45 cents lower than last.

A series of freak hailstorms - some of which lasted more than a few minutes - destroyed the hopes and incomes of many apple-growers. Thanks to the warm summer, the fruit was in the best condition for many years. After the buoyant prices of 1992, world prices remain low. Although the New Zealand Apple and Pear Board is proud that Kiwi apples still fetch a premium on major markets.

The kiwifruit industry is recovering from the massive losses it incurred in 1992. Production is down sharply, and quality is leading to hopes that there will be good markets for the fruit overseas.

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## COMMODITIES AND AGRICULTURE

## China takes over from Japan as top wool buyer

By Tony Walker in Beijing

China emerged in 1993 as the world's top customer for raw wool for the first time, overtaking Japan, according to an International Wool Secretariat study.

China's wool use last year accounted for about 20 per cent of world production, and this is set to reach 25 per cent by the year 2000 at the present rate of growth.

"Total wool use has increased a remarkable 2.75 times since 1980 when it accounted for only 7 per cent

of global wool production," the study said.

About two-thirds of wool used in China is imported, with Australian supplies accounting for half of total imports. New Zealand exports in with about 25 per cent and Uruguay 10 per cent. South Africa, the other IWS member, supplies a relatively small amount.

In 1992, imports of raw wool and tops reached a value of US\$764m and 66 to 70 per cent was consumed within the domestic market. Semi-processed and finished wool tex-

tile products earned China about US\$1.5m in 1992.

"Raw wool and top imports into China could well increase by nearly 80 per cent from 1992 to 2000, according to the study. In 1993-94, China's withdrawal from the market had contributed to the rapid rise in raw wool stocks in producing countries.

"With further promised economic liberalisation, rising foreign investment, increased consumer affluence and possible GATT membership, China has the potential to continue as the fastest growing market

for wool textiles and clothing in the world," the study concluded.

"At the same time given its recent history of stop-go economic cycles, wool price sensitivity, and political uncertainty, it could be the most volatile and unpredictable market."

The IWS is sponsored by Australia, New Zealand, South Africa and Uruguay. The organisation became active in the early 1980s and is involved in assisting China to upgrade its wool processing.

## More transparency urged for London bullion market

By David Blackwell

The London bullion market should become more transparent if it does not want to lose ground to New York, the Financial Times World Gold Conference was told in London yesterday.

Mr James Riley, a partner with J. Aron & Company/Goldman, Sachs & Co, said failure to make the market more open would ensure that New York, where Comex trades gold futures, would "remain the home to gold price transparency".

While the London fix provided the benchmark for physical gold, "no-one knows the turnover on a fix".

Mr Riley also predicted a rise in the gold price to \$414 a troy ounce this year as gold began to be treated once more as a commodity. He cited a report that Fidelity, a leading US fund, had 4 per cent of its assets in commodities.

Mr Victor von Klemperer, senior manager with Dresdner Bank, suggested that the Bundesbank, which holds almost 3,000 tonnes of gold, was looking seriously at mobilising some of its reserves following the budget deficit pressures "brought on by the horrendous costs of reunification".

"This topic will obviously gain in actuality in a year when they don't have a

DM18bn surplus to transfer to the finance ministry," he told the conference.

Mr Norbert Schöff, a senior precious metals manager at Credit Suisse, said Zurich was the premier physical gold market. In the past 10 years it had imported an average of between 1,200 and 1,400 tonnes, and exported between 1,000 and 1,200 tonnes.

The level of imports was equivalent to 70 per cent of western mine production and 40 per cent of total world supplies. "It is clear from these figures that Zurich is holding its own not only as the centre of gold trade in Switzerland, but also as the world's principal trading arena for physical gold," he said.

Mr Timothy Green, chief consultant with Gold Fields Mineral Services, said that physical demand for gold in the Middle East and India had accepted the higher trading range of around \$380 an ounce more quickly than expected.

"I happened to be in Jeddah earlier this year when the price slipped momentarily to \$375. Jeddah ran out of physical gold that day as people covered unfixed positions. And from then on I was much less comfortable about the downside risk of the price."

Mr Robert Ashley, director and head of treasury at Rothschild Australia, said that although Chinese gold con-

sumption was down last year by about 30 tonnes, its consumption of 325 tonnes made it the second biggest consumer behind the US.

He pointed out that prosperity continued to increase, with Chinese bank savings passing US\$100bn. There were about 800m farmers who had not yet bought gold.

With inflation at 22 per cent and the political uncertainty that would attend the post-Deng Xiaoping era, gold would benefit from its status as a reliable store of wealth.

"In the 1920s and 1930s Shanghai was the third largest gold market behind London and New York," he said.

"The influence of China in the market in 1993 demonstrated that it is regaining lost ground."

Mr Yuri Mitryuk, head of treasury at the Bank for Foreign Trade of the Russian Federation, said the Russian gold mining industry was expected to produce 150 to 155 tonnes this year, compared with 149.5 tonnes in 1993. This could be considered a sign that the bottom in Russian production had been reached.

He said the Russian finance ministry was eager to help the industry and suggested that cuts in both the number and level of both federal and local taxes would promote more investment and increase efficiency.

## Australian growers emerging from the gloom

Nikki Tait on a marked turnaround over the past six months in the sector's fortunes

Next month, Wool International, the newly-constituted keeper of Australia's vast wool stockpile, will begin a fixed monthly schedule of sales in an effort to pare back the stocks. The regular sales programme, involving 28,000 bales a month at the outset, has been stipulated by law - the same federal legislation that set up the government-owned body at the end of last year.

A year ago, the prospect of a steady supply dripping on to the market would have sent shudders down any Australian wool-grower's spine. Indeed, it is only 16 months since Mr Wayne Goss, Queensland's premier, suggested that the stockpile's 3.96m bales should be burnt, to remove the supply overhang and save storage costs.

Today, however, the industry's attitude can only be described as relaxed. "It's fundamental that the stockpile is sold and debt paid down," says the Wool Council of Australia, the main growers' organisation, adding that it supports the open, orderly process. Mr Bob Quirk, head of the Australian Council of Wool Exporters, also predicts that regular stockpile sales should not prove disruptive.

This sudden sang-froid owes much to a marked turnaround over the past six months in the

fortunes of Australia's wool industry, one of the nation's biggest export earners and the source of about 30 per cent of the world's wool production.

On April 28 1993, the sector hit rock-bottom. The local market indicator price plunged to 381 cents a kilogram, clean, the lowest level seen this century.

Today's improved prices allow Australian wool growers to survive, but leave insufficient margin to fund the backlog of investment and renovation work left by recent losses

Yet by the end of last week, the same market had recovered to around 625 cents. While this may be only half the level seen in the headiest days of the late-1980s, prices above the 600 cents-mark seemed way beyond many growers' dreams last year.

The sea-change has come about for two main reasons. The first is the recovery, or anticipated recovery, in Australia's traditional export markets. The biggest buyers of Australian wool include a number of western European countries - notably France, Italy and Germany - along with two Asian customers, Japan and Korea. For the most part, their economies are

either on the mend, or thought likely to be improving by the end of 1994. "There's been a quite sustained level of demand from all the traditional markets," says Mr Quirk. "We've seen considerable demand from western Europe, including Germany, and Japan. There is a growing

pipeline are thought to have declined. According to the Australian Bureau of Agriculture and Resource Economics, the number of sheep shorn in 1993-94 is likely to fall by 5 per cent or so, to about 169m, and then ease back to 166m in 1994-95.

All these developments have made Wool International's job considerably easier. The stockpile built up under the industry's previous guaranteed pricing structure, and was originally the responsibility of the now-defunct Australian Wool Realisation Commission. Wool International, the brainchild of Professor Ross Garnaut at Australian National University, whose recommendations on the restructuring of Australia's wool industry were adopted wholesale by the federal government last year, took it over at the beginning of December.

The new institution, which is scheduled to be privatised by 1997, has been charged with selling 28,000 bales a month during the latter half of 1994, and 187,000 bales a quarter in 1995.

But, already, it has more than tested the waters. In March, April and May, its sales averaged about 40,000 bales a month, well ahead of the stipulated levels (which permit only small "tolerances" on either

side). As a result, by the end of last month, the stockpile had reduced to under 3.69m bales. In large part, the fact that WI has already been pushing out stockpile sales in excess of its prescribed post-June monthly targets explains the relaxed attitudes to its impending permanent market presence.

Perhaps the biggest remaining question is whether China will remain in the market in such a substantial fashion, given the recent rise in prices. At least some observers predict that prices will ease back in the second half of 1994, but should then resume a steady climb next year.

Still, if an air of stability has finally returned to the beleaguered industry, Australia's 65,000 growers are not cheering yet.

At prices of about 600 cents a kilogram, they say that it is possible to survive. But, after the horrendous conditions of the past three years, there is a backlog of investment and renovation work to be done and current price levels still provide little margin. And already, the federal government is whipping away some of the emergency financial aid - in the form of interest subsidies and the like - that it introduced in the industry's darkest hours last year. That move, says the WCA, is "premature".

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Anonymous Metal Trading)

## ALUMINIUM, 99.7% (5 tonnes)

Cash 3 mths  
Close 1343.5-44.5 1373-73.5  
Previous 1394-35 1373-73.5  
High/Low 1340/1395 1377/1394  
AM Official 1350-40.0 1359-45.0  
Kerb close 1375-78  
Open int. 258,043  
Total daily turnover 35,584

## ALUMINIUM ALLOY (5 tonnes)

Close 1382-85 1390-85  
Previous 1345-85 1350-85  
High/Low 1385/1390 1385/1390  
AM Official 1386-70 1388-70  
Kerb close 1390-70  
Open int. 3,387  
Total daily turnover 621

## LEAD (5 tonnes)

Close 498-85 510-17  
Previous 498.5-500.5 517-18  
High/Low 495-85 517-18  
AM Official 495-85 517-18  
Kerb close 517-18  
Open int. 38,341  
Total daily turnover 8,530

## NICKEL (5 tonnes)

Close 6210-20 6300-10  
Previous 6170-80 6265-70  
High/Low 6150-80 6300/6320  
AM Official 6150-80 6300-10  
Kerb close 6300-10  
Open int. 56,400  
Total daily turnover 8,578

## ZINC (5 tonnes)

Close 5515-25 5595-00  
Previous 5475-25 5520-00  
High/Low 5490 5520/5550  
AM Official 5492-25 5570-75  
Kerb close 5570-75  
Open int. 18,203  
Total daily turnover 6,103

## ZINC, special high grade (5 tonnes)

Close 5650-51 5755-75  
Previous 5615-51 5715-75  
High/Low 5615-51 5715-75  
AM Official 5615-51 5715-75  
Kerb close 5715-75  
Open int. 105,027  
Total daily turnover 15,518

## COPPER, grade A (5 tonnes)

Close 2250-51 2270-71  
Previous 2234-35 2242-45  
High/Low 2234 2252/2255  
AM Official 2234-35 2252-55  
Kerb close 2252-55  
Open int. 205,849  
Total daily turnover 47,371

## LME AIA Official 25 rates 1,500

LME Clearing 25 rates 1,500  
Set 1,500 3 mths 500 6 mths 500 1 mth 1,500

## HIGH GRADE COPPER COMEX

Close 2250-51 2270-71  
Previous 2234-35 2242-45  
High/Low 2234 2252/2255  
AM Official 2234-35 2252-55  
Kerb close 2252-55  
Open int. 205,849  
Total daily turnover 47,371

## PRECIOUS METALS

## LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

## Gold (Troy oz)

Close 380.40-380.80  
Opening 380.50  
Morning fix 380.50  
Afternoon fix 380.50  
Day's High 381.50-381.90  
Day's Low 380.20-380.60  
Previous close 380.40-380.80

## Lead (5 tonnes)

1 month 3.18 8 months 4.37  
2 months 4.04 12 months 4.32  
3 months 4.10

## Silver fix

p/roy oz US cts equiv.  
Spot 560.00  
3 months 554.00  
6 months 553.50  
1 year 553.00  
Gold Ounces 8 price  
Kruggerand 350-355  
Maple Leaf 350-355  
New Sovereign 50-52

## Precious Metals continued

## GOLD COMEX (100 Troy oz; \$/troy oz)

Set 3 mths  
Close 381.1 381.1  
Previous 381.1 381.1  
High/Low 381.1 381.1  
AM Official 381.1 381.1  
Kerb close 381.1  
Open int. 381.1  
Total daily turnover 381.1

## PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Set 3 mths  
Close 400.0 400.0  
Previous 400.0 400.0  
High/Low 400.0 400.0  
AM Official 400.0 400.0  
Kerb close 400.0  
Open int. 400.0  
Total daily turnover 400.0

## PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Set 3 mths  
Close 135.0 135.0  
Previous 135.0 135.0  
High/Low 135.0 135.0  
AM Official 135.0 135.0  
Kerb close 135.0  
Open int. 135.0  
Total daily turnover 135.0

## SILVER COMEX (100 Troy oz; \$/troy oz)

Set 3 mths  
Close 400.0 400.0  
Previous 400.0 400.0  
High/Low 400.0 400.0  
AM Official 400.0 400.0  
Kerb close 400.0  
Open int. 400.0  
Total daily turnover 400.0

## GRUDES OIL NYMEX (42,000 US gals; \$/barrel)

Set 3 mths  
Close 17.81 17.81  
Previous 17.81 17.81  
High/Low 17.81 17.81  
AM Official 17.81 17.81  
Kerb close 17.81  
Open int. 17.81  
Total daily turnover 17.81

## GRUDES OIL LPE (5 tonnes)

Set 3 mths  
Close 17.81 17.81  
Previous 17.81 17.81  
High/Low 17.81 17.81  
AM Official 17.81 17.81  
Kerb close 17.81  
Open int. 17.81  
Total daily turnover 17.81

## HEATING OIL NYMEX (42,000 US gals; \$/barrel)

Set 3 mths  
Close 17.81 17.81  
Previous 17.81 17.81  
High/Low 17.81 17.81  
AM Official 17.81 17.81  
Kerb close 17.81  
Open int. 17.81  
Total daily turnover 17.81

## GAS OIL LPE (5 tonnes)

Set 3 mths  
Close 17.81 17.81  
Previous 17.81 17.81  
High/Low 17.81 17.81  
AM Official 17.81 17.81  
Kerb close 17.81  
Open int. 17.81  
Total daily turnover 17.81

## NATURAL GAS NYMEX (10,000 mcf; \$/mcf)

Set 3 mths  
Close 2.18 2.18  
Previous 2.18 2.18  
High/Low 2.18 2.18  
AM Official 2.18 2.18  
Kerb close 2.18  
Open int. 2.18  
Total daily turnover 2.18

## UNLEADED GASOLINE NYMEX (42,000 US gals; \$/barrel)

Set 3 mths  
Close 17.81 17.81  
Previous 17.81 17.81  
High/Low 17.81 17.81  
AM Official 17.81 17.81  
Kerb close 17.81  
Open int. 17.81  
Total daily turnover 17.81

## GRAINS AND OIL SEEDS

## WHEAT LCE (5 tonnes; \$/tonne)

Set 3 mths  
Close 108.45 108.45  
Previous 108.45 108.45  
High/Low 108.45 108.45  
AM Official 108.45 108.45  
Kerb close 108.45  
Open int. 108.45  
Total daily turnover 108.45

## WHEAT COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 30.00 30.00  
Previous 30.00 30.00  
High/Low 30.00 30.00  
AM Official 30.00 30.00  
Kerb close 30.00  
Open int. 30.00  
Total daily turnover 30.00

## MAIZE COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 20.00 20.00  
Previous 20.00 20.00  
High/Low 20.00 20.00  
AM Official 20.00 20.00  
Kerb close 20.00  
Open int. 20.00  
Total daily turnover 20.00

## BARLEY LCE (5 tonnes; \$/tonne)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN OIL COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN MEAL COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOYABEAN COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## SOFTS

## COCOA LCE (5 tonnes; \$/tonne)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## COCOA COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## COCOA COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## COCOA COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## COCOA COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## COCOA COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.00  
Previous 10.00 10.00  
High/Low 10.00 10.00  
AM Official 10.00 10.00  
Kerb close 10.00  
Open int. 10.00  
Total daily turnover 10.00

## COCOA COT (5,000 mcf; \$/mcf)

Set 3 mths  
Close 10.00 10.0







**LONDON SHARE SERVICE**

### **DEPARTMENT TRUSTS - Cont.**

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INVESTMENT TRUSTS - Cont.									
LEISURE & HOTELS - Cont.									
OTHER FINANCIAL									
PROPERTY - Cont.									
SPIRITS, WINES & CIGARS									
TRANSPORT - Cont.									
WATER									
SUPPORT SERVICES									
AMERICANS									
CANADIANS									
SOUTH AFRICANS									
GUIDE TO LONDON SHARE SERVICE									
TOBACCO									
TRANSPORT									
OIL INTEGRATED									
PROPERTY									
RETAILERS, FOOD									
RETAILERS, GENERAL									
PRINTING, PAPER & PACKAGING									
PHARMACEUTICALS									
MERCHANT BANKS									
OIL EXPLORATION & PRODUCTION									
LEISURE & HOTELS									
INVESTMENT COMPANIES									
OTHER INVESTMENT TRUSTS									
MEDIA									
LIFE ASSURANCE									

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### MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and are quoted as follows on each price scale in U.S. dollars. Value of each share is the net asset value of the fund divided by the number of shares outstanding. Prices of certain dollar funds are shown in U.S. dollars.

**Income Funds:** The Income Fund invests in U.S. Government securities, U.S. corporate bonds, and U.S. Treasury bills. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Equity Funds:** The Equity Fund invests in U.S. common stocks. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Money Market Funds:** The Money Market Fund invests in U.S. Government securities, U.S. corporate bonds, and U.S. Treasury bills. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Real Estate Funds:** The Real Estate Fund invests in U.S. real estate. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Commodity Funds:** The Commodity Fund invests in U.S. commodities. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**International Funds:** The International Fund invests in foreign securities. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Global Funds:** The Global Fund invests in U.S. and foreign securities. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Art Funds:** The Art Fund invests in U.S. art. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Collectible Funds:** The Collectible Fund invests in U.S. collectibles. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Technology Funds:** The Technology Fund invests in U.S. technology. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Health Funds:** The Health Fund invests in U.S. health. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Energy Funds:** The Energy Fund invests in U.S. energy. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Environmental Funds:** The Environmental Fund invests in U.S. environmental. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Space Funds:** The Space Fund invests in U.S. space. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.

**Other Funds:** The Other Fund invests in U.S. other. Distribution rate of 10% based on 10 periodic payments quarterly. A single premium charge of \$1.00 per share is charged at the time of purchase.



## CURRENCIES AND MONEY

## MARKETS REPORT

## Dollar treads water

The dollar traded steadily on foreign exchanges yesterday with no fresh data to give the market direction, writes Philip Gassith.

The US currency held onto its recent gains to finish in London at DM1.6695 against the D-Mark, from DM1.6682 on Monday. Against the yen, it finished at ¥105.235 from ¥105.350.

The dollar fell back later in US trading after Mr Mickey Kantor, the US trade representative, said the US would use trade laws if framework talks fail to open Japanese markets.

Traders said the recent pattern of foreign exchange markets playing second fiddle to the bond markets had persisted. Currency trade was directionless with "very little to go for", one dealer said.

Sterling also had a steady day with the sterling index finishing at 80.5 from 80.6 on Monday.

In Europe the D-Mark was slightly weaker ahead of the weekly report announcement today, and European elections tomorrow and later in the week.

In European trading the dollar showed little reaction to earlier news that Germany's economy had grown by an annualised 2.1 per cent in the first quarter - above market expectations.

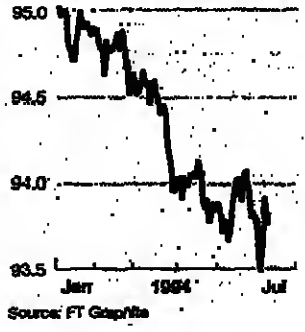
It was also unmoved by comments from Mr Lloyd Bentsen, US treasury secretary, suggesting that the fall in US unemployment to 6 per cent in May, might be subject to revision. The strength of this figure was a key factor accounting for the rise in the dollar last Friday.

Mr Kantor's comments, however, had more impact on the market. Speaking to reporters at the annual meeting in Paris of the Organisation for Economic Co-operation and Development, he said: "Our goals and strategies have not changed. We will open the Japanese markets either through the framework or through US trade laws."

His observations served as a timely reminder of one of the factors that has depressed the dollar in recent months. Some commentators thought they

## Sterling

December '94, Future contract price



Source: FT Graphs

## Pound in New York

June 7, Last, Bid, Ask, Pct. chg.

1m	3m	1y
1.507	1.507	1.507
1.507	1.507	1.507
1.507	1.507	1.507

had recently detected a change in US administration policy towards the dollar.

Mr Paul Chertkov, for example, head of global currency research at UBS, spoke of the "end of the policy of dollar debasement by the Clinton administration to exert pressure on the Japanese authorities to increase imports." But Mr Kantor's comments suggest it may be business as usual.

The flip side of recent dollar strength has been a softening of the D-Mark on the perception that the dollar enjoys investor support.

The D-Mark finished in London at FF3.317 against the French franc from FF3.312 on Monday. Mr David Cocker, economist at Chemical Bank in London, likened the franc's recent strength to a "small run in the franc market". He said the franc might rise to FF3.33, but said this could still take some time.

One European currency that slipped against the D-Mark was the Swedish krona which closed at SKr4.755 from SKr4.738. Analysts attributed this to the sale of bonds by foreigners, on fears of inflation, and worries that Austria might vote "no" in Sunday's referendum about accession to the EU. Sweden also wishes to join the EU.

Another feature of a very quiet day was a series of

comments from European government figures and central bankers about possible falls in interest rates. Mr Edmond Alphandery, the French economy minister, said there was still room for European interest rates to fall. This message was echoed by Mr Erik Hoffmeyer, the Danish central bank governor, and Mr Guenter Reitzel, the German economics minister.

As yet the European elections have impacted little on the market consciousness. Mr Cocker comments: "The total apathy of the voting public will probably spill over into the markets." The possible exceptions to this rule might be the UK, Spain and Germany, where bad results could result in political instability and currency weakness.

There is also speculation that with the election past, the Greek government might relent in its defence of the drachma. Were the drachma to fall in value, this could spill over into other weak European currencies like the Spanish peseta and the Portuguese escudo.

Markets are anticipating a 3-5 basis point fall in the German repo rate when the result of the weekly auction is announced today. The rate is currently 5.15 per cent. German call money rates firmed slightly to about 5.05/5.15 per cent from Monday's 5.05/5.15 per cent.

In the UK money markets, the Bank of England provided late assistance of \$50m, compared to a forecast shortage of \$200m. The overnight rate traded between 4 1/4 per cent and 4 1/2 per cent. In the futures market short sterling gave up some of its recent gains. The December contract traded 33.000 lots and finished at 93.78 from 93.86. The December euromark contract traded nearly 44,000 lots, and finished four basis points lower at 94.73.

## OTHER CURRENCIES

June 7	1m	3m	1y
Italy	161.50	161.50	161.50
Spain	161.50	161.50	161.50
France	161.50	161.50	161.50
Germany	161.50	161.50	161.50
UK	161.50	161.50	161.50

## POUND SPOT FORWARD AGAINST THE POUND

Jun 7	Closing mid-point	Change on day	Set-off spread	Day's Mid low	One month %PA	Three months %PA	One year %PA	Bank of England %PA					
Europe													
Austria (Sch)	17.800	-0.025	712	905	17.750	17.871	17.871	0.2	114.0				
Belgium (Bfr)	51.770	-0.025	407	113	51.850	51.860	51.768	0.2	51.811	-0.3	51.836	0.3	115.0
Denmark (DKr)	8.9470	-0.0002	426	-81	8.9877	9.0189	9.8592	-1.0	9.966	-0.8	9.989	-0.2	116.0
France (Ffr)	6.8466	-0.0001	818	-516	6.833	6.8068	6.815	-0.1	6.822	-0.1	6.822	0.0	117.0
Germany (DM)	8.5771	-0.0003	727	-184	8.5535	8.5517	8.515	-0.8	8.5903	-0.4	8.5652	0.1	108.0
France (Ffr)	2.6159	-0.0005	146	-172	2.6251	2.6109	2.6163	-0.2	2.6157	0.0	2.6003	0.6	123.0
Greece (Dr)	375.188	+0.0038	867	-669	374.0434	374.5757	-	-	1.0206	-	1.0221	-0.3	104.0
Italy (Lit)	1.2245	-0.0001	712	-905	1.2245	1.2245	1.2245	-0.9	1.2254	-0.2	1.2252	-0.2	77.0
Luxembourg (Lfr)	249.028	-0.0002	712	-905	249.044	249.15	249.39	-2.9	249.573	-2.8	249.283	-2.2	77.0
Netherlands (Gld)	2.9186	-0.0002	179	-213	2.9251	2.9149	2.9192	0.2	2.9188	0.0	2.9007	0.7	115.0
Norway (Nkr)	10.8679	-0.0102	802	-507	10.8193	10.8751	10.8622	0.8	10.9043	-0.3	10.9690	0.0	83.0
Portugal (Esc)	201.73	-0.0001	818	-516	201.73	201.73	201.73	-0.1	201.73	-0.1	201.73	-0.1	80.0
Spain (Ptas)	200.454	-0.447	803	-225	200.651	200.852	200.55	-2.9	200.744	-2.6	210.116	-2.0	85.0
Sweden (Skr)	11.9690	-0.0489	583	-356	10.9759	10.8751	11.289	-0.3	12.024	-1.9	12.122	-1.3	71.0
Switzerland (Sfr)	2.1302	-0.0002	317	-548	2.1355	2.1275	2.1319	0.7	2.1293	0.7	2.1095	1.2	118.0
UK (Sterling)	-	-1.3036	-0.0011	627	-0.45	1.3059	1.3048	-1.1	1.3006	0.9	1.3016	0.2	90.0
USA (Dollar)	-	-0.93628	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina (Pesc)	1.5042	-0.0005	038	-048	1.5048	1.5011	-	-	1.5017	-	1.5018	-0.5	87.0
Brazil (Cr)	3023.15	+50.93	817	-010	3031.00	2971.00	-	-	3021.11	-	3021.11	-0.5	87.0
Canada (C\$)	2.0968	-0.0004	454	-679	2.0975	2.0979	2.0979	-0.8	2.0711	-0.9	2.0682	-0.9	87.0
Mexico (New Pes)	0.0304	+0.0021	72	-678	0.0456	0.0259	-	-	0.0456	-	0.0456	-0.5	65.0
USA (Dollar)	1.5507	-0.0006	025	-075	1.5078	1.5040	1.5061	0.7	1.5047	0.6	1.49	0.5	65.0
Pacific/Middle East/Asia													
Australia (A\$)	2.0022	-0.0001	508	-335	2.0549	2.0400	2.0505	0.4	2.0499	0.4	2.0489	0.2	114.0
Hong Kong (HK\$)	11.8472	-0.0028	426	-818	11.8526	11.8259	11.891	0.8	11.9392	0.4	11.8822	-0.7	115.0
Japan (Y)	156.580	-0.0002	628	-418	156.58	156.58	156.58	3.1	157.29	3.0	157.34	0.3	115.0
Malaysia (M\$)	3.9112	-0.0001	082	-123	3.9123	3.9043	-	-	3.9123	-	3.9123	-0.4	115.0
New Zealand (NZ\$)	2.5489	-0.0042	443	-482	2.5503	2.5504	2.5498	0.3	2.5492	-0.4	2.5567	-0.4	115.0
Philippines (P\$)	49.8181	-0.0001	082	-123	49.8181	49.8181	49.8181	-	49.8181	-	49.8181	-0.4	115.0
Saudi Arabia (SR\$)	5.8920	-0.0023	497	-842	5.8547	5.8415	-	-	5.8547	-	5.8547	-0.4	115.0
Singapore (S\$)	2.3036	-0.0003	084	-107	2.3122	2.3059	-	-	2.3122	-	2.3122	-0.4	115.0
S. Africa (Rand)	9.4580	-0.0007	500	-356	9.4580	9.4580	-	-	9.4580	-	9.4580	-0.4	115.0
S. Africa (Rand)	9.4580	-0.0002	116	-166	9.4580	9.4580	-	-	9.4580	-	9.4580	-0.4	115.0
South Korea (Won)	121.836	-0.0004	426	-818	121.836	121.836	-	-	121.836	-	121.836	-0.4	115.0
Taiwan (T\$)	39.0213	-0.0004	404	-382	39.0400	39.0400	-	-	39.0400	-	39.0400	-0.4	115.0
Thailand (TH\$)	48.6827	-0.0019	080	-484	48.6844	48.6844	-	-	48.6844	-	48.6844	-0.4	115.0

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

June 7	Closing mid-point	Change on day	Set-off spread	Day's mid low	One month NPA	Three months NPA	One year NPA	JP Morgan					
Europe													
Austria	(Sfr)	17.7325	-0.0125	300 - 350	11.7700	11.7300	11.74 - 0.01	11.9853	0.5	103.1			
Belgium	(Bfr)	34.8570	-0.0015	400 - 680	34.4400	34.3400	34.3400 - 0.10	34.4427	-0.3	104.4			
Denmark	(DKr)	0.4434	-0.0003	334 - 354	0.5517	0.5280	0.5248 - 1.0	0.5399	-1.8	0.6881	-0.8	104.4	
France	(Ffr)	5.8395	-0.0006	302 - 402	5.8450	5.5517	5.8394 - 0.01	5.8452	-0.07	5.8507	-0.5	104.4	
Germany	(DM)	0.4434	-0.0003	334 - 354	0.5517	0.5280	0.5248 - 1.0	0.5399	-1.8	0.6881	-0.8	104.4	
Greece	(Dr)	246.950	-0.01	700 - 200	246.950	246.950	246.93 - 0.55	251.10	-3.5	254.18	-1.2	99.8	
Ireland	(Ir£)	1.4708	-0.0001	684 - 724	1.2475	1.4584	1.2403 - 1.3	1.4584	1.2	1.4598	0.18	77.4	
Italy	(Lit)	161.635	-0.01	800 - 900	160.50	161.437	160.50 - 0.24	161.51	-0.3	160.50	0.2	104.4	
Luxembourg	(Lfr)	1.4708	-0.0001	684 - 724	1.2475	1.4584	1.2403 - 1.3	1.4584	1.2	1.4598	0.18	77.4	
Netherlands	(Gld)	1.8710	-0.001	705 - 715	1.8782	1.8898	1.8723 - 0.09	1.8738	-0.6	1.8844	-0.1	104.4	
Norway	(Nkr)	7.2515	-0.0039	300 - 230	7.2508	7.2484	7.2562 - 0.8	7.242	-0.8	7.2078	0.3	95.5	
Portugal	(Esc)	129.800	-0.1	600 - 000	127.825	126.800	124.303 - 8.5	176.3	-7.9	181.25	-4.8	92.2	
Spain	(Ptas)	167.00	-0.02	450 - 100	167.00	167.00	167.00 - 0.01	167.00	0.01	167.00	0.01	104.4	
Sweden	(Skr)	7.9403	-0.0556	354 - 440	7.9045	7.9833	7.9358 - 3.7	7.9859	-2.4	8.0003	-1.6	81.4	
Switzerland	(Sfr)	1.4151	-0.0012	130 - 180	1.4180	1.4120	1.4129 - 0.01	1.4186	-0.1	1.4053	-0.7	104.4	
UK	(£)	1.5070	-0.0009	096 - 074	1.5075	1.5048	1.5047 - 0.08	1.5047	0.8	1.499	0.5	82.3	
USA		1.1580	-0.0006	596 - 584	1.1572	1.1532	1.1591	1.18	1.1917	1.5	1.1936	-0.7	-
1.4708													
Americas													
Argentina	(Pesc)	0.9362	-0.0001	981 - 892	0.9362	0.9361	-	-	-	-	-	-	
Brazil	(C)	2010.08	+54.58	007 - 008	2010.10	2010.02	-	-	-	-	-	-	
Canada	(C\$)	1.1715	-0.0001	450 - 100	1.1565	1.1565	1.1721 - 0.14	1.3785	-1.5	1.3811	-1.4	83.9	
Mexico	(New Pesos)	3.3540	-0.116	370 - 470	3.3470	3.3330	3.3741 - 0.04	3.3448	-0.3	3.3262	-0.3	-	
USA	(S)											100.5	
Pacific/Middle East/Africa													
Australia	(A\$)	1.2618	-0.0008	613 - 692	1.2646	1.2678	1.2621 - 0.3	1.2628	-0.1	1.266	-0.2	88.8	
China	(Yen)	17.7325	-0.0006	982 - 1282	1.2946	1.2978	1.2922 - 0.1	7.7249	-0.1	7.7448	-0.2	-	
Hong Kong	(HK\$)	31.5700	-0.0025	675 - 725	31.5735	31.5680	31.465 - 1.1	31.585	-2.9	-	-	-	
Japan	(¥)	105.235	-0.115	240 - 280	105.350	105.050	105.093 - 2.3	104.6	-2.4	102.23	2.8	144.9	
Malaysia	(M\$)	2.5947	-0.0037	942 - 952	2.5700	2.5800	2.5622 - 3.5	2.5627	-1.7	2.6147	-0.8	-	
New Zealand	(NZ\$)	0.4434	-0.0034	896 - 956	1.8620	1.8588	1.8711 - 0.13	1.896	-1.5	1.7777	-1.7	-	
Philippines	(P\$)	21.550	-0.0001	700 - 720	21.5500	21.5500	-	-	-	-	-	-	
Saudi Arabia	(R)	3.7505	-	502 - 607	3.7507	3.7502	3.7514 - 0.2	3.7531	-0.3	3.7664	-0.4	-	
South Africa	(R)	1.5282	-0.0011	323 - 338	1.5340	1.5305	1.5310 - 0.8	1.5315	0.3	1.5333	-0.1	-	
Singapore	(S\$)	3.6918	-0.005	210 - 225	3.6255	3.6130	3.6373 - 0.51	3.6989	-4.8	3.7423	-3.3	-	
Taiwan	(N\$)	4.7370	-0.0078	670 - 070	4.6550	4.7007	4.6837 - 0.4	4.696	-7.7	-	-	-	
Thailand	(B\$)	30.2520	-0.18	400 - 450	30.4000	30.4000	30.4000 - 0.01	30.4000	-0.01	30.4000	-0.01	-	
Turkey	(TL)	27.2778	-0.011	855 - 900	27.0600	27.0540	27.0507 - 0.3	27.1148	-0.8	27.1148	-0.8	-	
Thailand	(B\$)	26.2400	-0.005	300 - 350	26.2500	26.2500	26.2528 - 0.3	26.44	-0.2	26.592	-2.7	-	
1980													
1980 rates for June 6. Dollar spreads in the Dollar Spot table show only the last two business days. Forward rates are not directly quoted at the market but are calculated from the forward curve.													

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## CROSS RATES AND DERIVATIVES

## EXCHANGE CROSS RATES

June 7	1m	3m	1y
Belgium	161.50	161.50	161.50
Denmark	161.50	161.50	161.50
France	161.50	161.50	161.50
Germany	161.50	161.50	161.50
Italy	161.50	161.50	161.50
Netherlands	161.50	161.50	161.50
Norway	161.50	161.50	161.50
Portugal	161.50	161.50	161.50
Spain	161.50	161.50	161.50
Sweden	161.50	161.50	161.50
Switzerland	161.50	161.50	161.50
UK	161.50	161.50	161.50
USA	161.50	161.50	161.50

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## D-MARK FUTURES (DM 125,000 per \$)

June 7	1m	3m	1y
Jun	0.5995	0.5995	0.5995
Jul	0.5995	0.5995	0.5995
Aug	0.5995	0.5995	0.5995
Sep	0.5995	0.5995	0.5995
Oct	0.5995	0.5995	0.5995
Nov	0.5995	0.5995	0.5995
Dec	0.5995	0.5995	0.5995

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## JAPANESE YEN FUTURES (¥125,000 per \$)

June 7	1m	3m	1y
Jun	0.5995	0.5995	0.5995
Jul	0.5995	0.5995	0.5995
Aug	0.5995	0.5995	0.5995
Sep	0.5995	0.5995	0.5995
Oct	0.5995	0.5995	0.5995
Nov	0.5995	0.5995	0.5995
Dec	0.5995	0.5995	0.5995

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## SWISS FRANC FUTURES (Sfr 125,000 per \$)

June 7	1m	3m	1y
Jun	0.5995	0.5995	0.5995
Jul	0.5995	0.5995	0.5995
Aug	0.5995	0.5995	0.5995
Sep	0.5995	0.5995	0.5995
Oct	0.5995	0.5995	0.5995
Nov	0.5995	0.5995	0.5995
Dec	0.5995	0.5995	0.5995

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## WORLD INTEREST RATES

## MONEY RATES

June 7	Over night	One month	Three months	Six months	One year	Long term	Rate
Belgium	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Denmark	5.5	5.5	5.5	5.5	5.5	7.40	4.50
France	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Germany	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Italy	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Netherlands	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Norway	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Portugal	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Spain	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Sweden	5.5	5.5	5.5	5.5	5.5	7.40	4.50
Switzerland	5.5	5.5	5.5	5.5	5.5	7.40	4.50
UK	5.5	5.5	5.5	5.5	5.5	7.40	4.50
USA	5.5	5.5	5.5	5.5	5.5	7.40	4.50

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## EURO CURRENCY INTEREST RATES

June 7	Short term	7 days	One month	Three months	Six months	One year
Belgium Franc	5.5	5.5	5.5	5.5	5.5	5.5
Denmark Krona	5.5	5.5	5.5	5.5	5.5	5.5
D-Mark	5.5	5.5	5.5	5.5	5.5	5.5
Dutch Guilder	5.5	5.5	5.5	5.5	5.5	5.5
French Franc	5.5	5.5	5.5	5.5	5.5	5.5
Portuguese Esc	5.5	5.5	5.5	5.5	5.5	5.5
Spanish Peseta	5.5	5.5	5.5	5.5	5.5	5.5
Sterling	5.5	5.5	5.5	5.5	5.5	5.5
Swiss Franc	5.5	5.5	5.5	5.5	5.5	5.5
Can. Dollar	5.5	5.5	5.5	5.5	5.5	5.5
US Dollar	5.5	5.5	5.5	5.5	5.5	5.5
Italian Lira	5.5	5.5	5.5	5.5	5.5	5.5
Yen	5.5	5.5	5.5	5.5	5.5	5.5
Asian Ring	5.5	5.5	5.5	5.5	5.5	5.5

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## THREE MONTH EURO DOLLAR FUTURES (DM 125,000 per \$)

June 7	1m	3m	1y
Jun	0.5995	0.5995	0.5995
Jul	0.5995	0.5995	0.5995
Aug	0.5995	0.5995	0.5995
Sep	0.5995	0.5995	0.5995
Oct	0.5995	0.5995	0.5995
Nov	0.5995	0.5995	0.5995
Dec	0.5995	0.5995	0.5995

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## THREE MONTH EURO DOLLAR FUTURES (DM 125,000 per \$)

June 7	1m	3m	1y
Jun	0.5995	0.5995	0.5995
Jul	0.5995	0.5995	0.5995
Aug	0.5995	0.5995	0.5995
Sep	0.5995	0.5995	0.5995
Oct	0.5995	0.5995	0.5995
Nov	0.5995	0.5995	0.5995
Dec	0.5995	0.5995	0.5995

Source: Bank of England. Note: The Bank of England does not publish forward rates for currencies other than the dollar and the pound.

## THREE MONTH EURO DOLLAR FUTURES (DM 125,000 per \$)

June 7	1m	3m	1y
Jun	0.5995	0.5995	0.5995
Jul	0.5995	0.5995	0.5995
Aug	0.5995	0.5995	0.5995
Sep	0.5995	0.5995	0.5995
Oct	0.5995	0.5995	0.5995
Nov	0.5		



## WORLD STOCK MARKETS

EUROPE									
Stock	Price	Change	High	Low	Open	Close	Volume	Turnover	Index
Austria (Jun 7/94)									
ATX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Belgium (Jun 7/94)									
BEI	3,456.78	+45.67	3,478.90	3,434.56	3,450.12	3,465.78	2,500,000	2,500,000	3,456.78
Germany (Jun 7/94)									
DAX	2,345.67	+34.56	2,367.89	2,323.45	2,340.12	2,354.67	1,800,000	1,800,000	2,345.67
France (Jun 7/94)									
CAC	4,567.89	+56.78	4,589.01	4,545.67	4,560.12	4,575.89	3,200,000	3,200,000	4,567.89
Italy (Jun 7/94)									
FTSE	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Spain (Jun 7/94)									
IBEX	3,456.78	+45.67	3,478.90	3,434.56	3,450.12	3,465.78	2,500,000	2,500,000	3,456.78
Sweden (Jun 7/94)									
OMX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Switzerland (Jun 7/94)									
SIX	3,456.78	+45.67	3,478.90	3,434.56	3,450.12	3,465.78	2,500,000	2,500,000	3,456.78
Netherlands (Jun 7/94)									
AEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Portugal (Jun 7/94)									
BVL	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Greece (Jun 7/94)									
ATHEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Ireland (Jun 7/94)									
ISEQ	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Finland (Jun 7/94)									
HEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Poland (Jun 7/94)									
WIG	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Czech Republic (Jun 7/94)									
PSE	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Hungary (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Slovak Republic (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Slovenia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Croatia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Bosnia and Herzegovina (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Serbia and Montenegro (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Macedonia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Albania (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Bulgaria (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Romania (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Russia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Ukraine (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Belarus (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Lithuania (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Latvia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Estonia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Cyprus (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Turkey (Jun 7/94)									
BIST	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Israel (Jun 7/94)									
TASE	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
South Africa (Jun 7/94)									
JSE	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Egypt (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Jordan (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Lebanon (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Syria (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Yemen (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Oman (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Kuwait (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Qatar (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Bahrain (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
UAE (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Saudi Arabia (Jun 7/94)									
TASI	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Pakistan (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Bangladesh (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
India (Jun 7/94)									
Sensex	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
China (Jun 7/94)									
SHSE	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Hong Kong (Jun 7/94)									
HSI	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Taiwan (Jun 7/94)									
TSEI	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
South Korea (Jun 7/94)									
KOSPI	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Japan (Jun 7/94)									
Nikkei	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Australia (Jun 7/94)									
ASX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
New Zealand (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Canada (Jun 7/94)									
TSX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
USA (Jun 7/94)									
DOW	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Mexico (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Brazil (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Argentina (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Chile (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Colombia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Peru (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Venezuela (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Ecuador (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Bolivia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Paraguay (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Uruguay (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Costa Rica (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Panama (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Nicaragua (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Honduras (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Guatemala (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
El Salvador (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Belize (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Jamaica (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Trinidad and Tobago (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Barbados (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Guyana (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
Suriname (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
French Polynesia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	1,234.56
New Caledonia (Jun 7/94)									
INDEX	1,234.56	+12.34	1,245.67	1,223.45	1,230.12	1,242.56	1,200,000	1,200,000	



4 pm close June 7

10

TECHNOLOGY THAT WORKS FOR LIFE

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Continued on next page







AMERICA

# Dow subsides as equities follow bonds

Wall Street

US share prices slipped yesterday morning as stocks followed bonds in a convictionless decline, writes Frank McGurty in New York.

By 1 pm, the Dow Jones Industrial Average was 7.69 lower at 3,760.83, while the more broadly based Standard & Poor's 500 was down 0.49 at 458.39. In the secondary markets, the American SE composite dipped 0.18 to 442.41 and the Nasdaq composite receded 3.05 to 740.35.

With no fresh economic news available, activity was light. Only 139m shares were traded on the NYSE by 1 pm. Analysts said that trading was likely to remain listless until Friday, when the Commerce Department is scheduled to release producer prices data for May, followed by consumer price data next Monday.

However, the two reports were not expected to stir the market unless the data confirmed expectations of tame inflation last month. Forecasts centre on a 0.2 per cent increase in the PPI, after a slight decline in April. The CPI is expected to show a 0.3 per cent uptick, after inching 0.1 per cent ahead during the previous month.

After a welcome two-day rally, the US Treasury market was taking a breather. The benchmark 30-year government bond was showing modest losses by midday, with traders also looking ahead to the inflation data due out later in the week.

In the absence of a strong movement by bonds or important fundamental guidance, technical conditions came to the fore, giving rise to profit-taking across the board.

Cyclical issues were the hardest hit, probably reflecting recent statistics pointing to a cooling economy. Caterpillar dropped 3 1/4 to \$106 1/4 and International Paper receded 1 1/4 to \$58.

Utilities were among the most actively traded issues, in transactions linked to dividend payment schedules. Texas Utilities dipped 3 1/4 to \$22 1/4 in heavy volume of more than 2.2m shares. Pennsylvania Power & Light was flat at \$21 1/4 and Long Island Lighting shed 1/4 to \$19 1/4.

In pharmaceuticals, Rhône-Poulenc Rorer was turning in a strong performance amid speculation that its French parent

company may raise its stake in the US operation.

Late last Friday, the company filed a document with the Securities and Exchange Commission which increased the likelihood of such a move, analysts said.

After a delayed opening yesterday, its share price jumped 3 1/4 to \$38 1/4.

Alexander & Alexander Services resumed trading after a one-day hiatus requested by the company, pending a "significant announcement".

In an antidumping, the stock added 3 1/4 to \$16 1/4 as the company revealed that American International Group would invest \$200m in a new issue of convertible preferred stock.

It was a quiet day on the Nasdaq, with most technology stocks showing slight declines. Wellfleet Communications shed 1/4 to \$25 1/4 and Lotus Development dropped 1/4 to \$56 1/4. Microsoft marked its first day as one of the Standard & Poor's 500 index stocks by slipping 1/4 to \$33 1/4.

Canada

Toronto traded lower at noon, the TSE-300 composite index registering a fall of 25.82 to 4,243.14 in volume that climbed to 21.1m shares from Monday's 21.5m.

A firm base metals index kept the market from easing further. The group rose 11.92 to 3,696.98 as Alcan Aluminium held steady at C\$31 1/4 and Inco traded C\$4 higher at C\$35 after Lehman Brothers raised its 1994 Inco profit estimate.

Conversely, precious metals were lower, the sector losing 93.41, or 1 per cent, at 9,640.74.

Brazil

Shares in São Paulo were 0.6 per cent higher in quiet midday trading, but behind the average daily rate of inflation, as foreign and domestic investors continued to buy ahead of the introduction of the new currency, the real, on July 1.

The Bovespa index had risen 175 to 29,262 by 1 pm.

Chart analysts said that the Bovespa index had a resistance barrier at 30,000 points, and there were expectations that profit-taking would take hold at that level.

Midday turnover was C\$340.9m.

Telebras was up 0.7 per cent at C\$4.70 and Petrobras 3.6 per cent ahead at C\$21.4.

Chart analysts said that the Bovespa index had a resistance barrier at 30,000 points, and there were expectations that profit-taking would take hold at that level.

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EUROPE

# Frankfurt frightened by new loan losses rumour

As equities wobbled around the world, Mr David Roche and his new firm, Independent Strategy, offered encouragement yesterday to long-term financial asset markets, writes Our Markets Staff.

"The conditions are set for mild world economic recovery, no return of inflation and lower bond yields in most countries," said Mr Roche, marking out German, US and Japanese equities and bonds for positive surprises. But yesterday's German surprise was quite the reverse.

FRANKFURT was running along contentedly when the bottom fell out of the market. The Dax index closed the session 27.97 lower at 2,135.10 and hit 2,123.67 in the post-bourse before ending at 2,131.80, down 1.5 per cent on the day.

Share prices founded on a rumour that major banks were at risk of more heavy losses from a corporate borrower — perhaps, once again, in the real estate sector. The banks denied it but Bayernhypo fell DM13, or 3.9 per cent, to DM29.50 and Commerzbank DM12.50, or 3.7 per cent, to DM325.

Elsewhere, Daimler led the slide with a fall of DM12.50 to DM90.50; Siemens lost DM13 to DM85.50; and, in a weak engineering sector, KHD and Klockner-Werke fell DM4.60 to DM135.90 and DM5.50 to DM150.50 respectively.

Mr Barbara Altmann at B Metzler in Frankfurt said that the banking rumour had a general effect on share prices. Noting that turnover stayed low yesterday, rising from DM5.2bn to DM5.3bn, she added: "With volume this low, people can make money out of other people's fears."

MILAN recovered 1.6 per cent as domestic and foreign investors returned to buy blue chips. The Comit index regained 11.73 to 750.66 as the market awaited government measures, possibly today, to help the labour market. Investors were further cheered by news that Italian equity funds continued to record net receipts in May, countering worries that the recent market downturn might have indicated net redemptions during the month.

Flat led the advance, adding 1.23, or 3.5 per cent, at 17,060 after comments by Mr Giorgio Garuzzo, Fiat Auto president, that the group was struggling to keep up with demand for the new Punto model. Olivetti put on L100 at 12.51 and Pirelli added L102 at 12.79.

PARIS bounced back from the session's lows, helped by a technical recovery late in the day in futures. The CAC-40 index finished 13.41 down at 2,023.74, in turnover of some FF30m.

Suez rose FF2.60 to FF308.50 as the market was swept by rumours that the sale of its Groupe Victoire insurance subsidiary was imminent.

Rhône-Poulenc, FF1.70 cheaper at FF133.50, was also subject to unconfirmed reports that it was to buy out the minority shareholding in Rhône-Poulenc Rorer, a US

subsidiary, in which it has a 68 per cent shareholding.

AMSTERDAM drifted lower in a session dominated by broad declines in blue chip issues. The AEX index shed 2.07 to 405.26 as Royal Dutch dipped F12.60 to F196.80 on weakness in oil prices.

Nedlloyd drifted down F1.40 at F168.60 with James Capel reiterating its sell recommendation from Credit Suisse.

SMH lost SF11 to SF310 after the watchmaker said it expected only modest profit growth this year but was confident about the outlook for its core business.

MADRID was hit by last minute selling after a drop in the futures market, and the general index fell 3.52 to 323.54 in turnover estimated at less than Ptas25bn.

ATHENS slipped nearly 2 per cent on profit-taking, with most of the losses seen among

construction stocks. The general index lost 17.3 to 854.54, in a session extended by one hour following technical problems.

HELSINKI fell 1.3 per cent but two of its conglomerates fared worse. Huhtamaki lost FM20, or 9.5 per cent at FM190 after its profits came out higher, but for below analyst expectations; and Amer shed FM3, or 2.2 per cent to FM131 although it reported a 67 per cent rise in earnings per share for the first four months of 1994. The Hex index closed 21.4 lower at 1,754.6.

WARSAW dropped back for the third consecutive session as the Wig index fell 376.5 or 3.6 per cent to 10,221.7.

Turnover declined by 5 per cent to 958bn zlotys as volume rose 48 per cent to 2.7m shares.

ISTANBUL fell 1.6 per cent in a volatile session, which concentrated mainly state industries after the head of the privatisation agency urged that the privatisation programme should be accelerated.

The composite index lost 217.34 to 16,536.4, having begun the day at 17,225.85. Turnover dropped to TL1.185bn.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

	Open	High	Low	Close	Change
FT-SE Actuaries 100	1413.53	1414.27	1414.75	1412.89	-1.64
FT-SE Actuaries 200	1428.78	1429.20	1429.70	1428.04	-0.74
FT-SE Actuaries 300	1433.30	1433.80	1434.30	1432.57	-0.73
FT-SE Actuaries 400	1438.00	1438.50	1439.00	1437.23	-0.77
FT-SE Actuaries 500	1442.70	1443.20	1443.70	1441.94	-0.76

Sip and Stet, foreign favourites, both rose by 4.1 per cent, by 1.51 to 1.455 and by 1.221 to 1.532 respectively.

Against the trend, Credito Italiano fell 1.23 to 1.2361 on news that it planned to raise L2,000bn over five years through rights issues.

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Share price and index rebound



Source: FT Graphite

SFRs to SFR1.225 while Suizer registered put on SFR14 to SFR948 after a recommendation from Credit Suisse.

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# South African gold shares advance on rise in bullion

Gold shares in Johannesburg improved sharply following a rise in bullion above \$380 an ounce. However, industrial shares lacked direction, while there was steady interest in De Beers, up R2.25 at R112.25.

The overall index rose 56 to 5,518, industrials 6 to 6,545 and golds 56 to 1,978.

Among other movers, Anglo added R5 to R227.50 and ICI was 50 cents better at R55.50.

Remgro depressed the industrial index with a 75-cent fall to R26.75 on fears that it could suffer from possible taxes on cigarettes and alcohol.

Gencor appreciated 5 cents to R10.70. Richmont slipped 25 cents to R39.50 in good volume and Minorco moved ahead R4.50 to R111.

Alsea shed 15 cents to R8.70

as its strong showing of the past week run out of steam, although dealers said the market remained positive about its prospects. In golds, Kiof climbed R3 to R50.50 and Vaal Reef R11 to R401.

The Council of Southern African Banks said yesterday that it had rejected recommendations for an evolutionary restructuring of the Johannesburg Stock Exchange, and warned that without full deregulation a rival exchange could be set up.

The council said that without full deregulation there would be "no option but to apply for a licence to establish a rival stock exchange".

The move followed the JSE's release of its restructuring proposals last month.

Tokyo

After a lacklustre morning and afternoon which produced modest gains in light trading, a wave of buying drove the market back above the 21,000 mark in the final minutes of the day, writes Robert Patton in Tokyo.

The Nikkei 225 average saw a day's low of 20,755.05 at the opening but largely on foreign buying and sporadic bargain hunting after three days of declines, was lifted gently through the morning and most of the afternoon. In the final minutes of trading a barrage of futures-linked buy orders pushed the index up sharply to a close of 21,042.71 for a rise of 316.06, just below the session's high of 21,053.71 recorded seconds earlier.

The capital-weighted Nikkei 300 gained 3.65 at 307.31 and the Topix index of all first section stocks put on 17.06 at 1,881.53. Volume was an estimated 270m shares. In London the ISE/Nikkei 50 index was 0.88 firmer at 1,389.89.

Large-capital and high-technology stocks came back to lead the advance. Oki Electric, the day's volume leader with 12.7m shares traded, climbed Y24 to Y708. Fuji Heavy Industries, the manufacturer of Subaru cars, was up Y14 to Y470 in the day's second highest volume of 5.7m shares. Other auto makers also gained, Mazda Motors roaring up Y33 to Y621 and Isuzu Motors adding Y16 to Y517.

Nintendo rose Y20 to Y8,630 in spite of a morning report that the game maker had been found guilty of patent infringement by a US Federal court. The case, which could cost Nintendo \$350m, is being appealed with a damage ruling expected on July 18.

More and more traders were talking about higher share prices in the near to medium term. One analyst, basing his optimism on the recent strength in a number of retail areas, particularly ladies' garment sales, suggested that the Nikkei could gain 20 per cent this year.

But another area of garment retailing took beating in today's market. The menswear discounters, Aoki International

and Aoyama Trading, dropped Y220 to Y2,380